

**MINUTES**  
**Approved by the Committee**  
**Property Taxes and Revenue Expenditures**  
**Friday, September 18, 2020**  
**10:00 A.M.**  
**Room EW42**  
**Boise, Idaho**

Co-chair Addis called the Property Taxes and Revenue Expenditures Committee meeting to order at 10:03 a.m.; a silent rollcall was taken.

Committee members in attendance: Co-chair Jim Rice and Co-chair Jim Addis; Senators Jim Guthrie, C. Scott Grow, and Jim Woodward; and Representatives Mike Moyle, Jason Monks, Rod Furniss, Lauren Necochea, John Vander Woude, and John Gannon. Senators Kelly Anthon and Grant Burgoyne participated via videoconference. Absent and excused: Representative Terry Gestrin. Legislative Services Office (LSO) staff present were: Kristin Ford, Keith Bybee, and Ana Lara.

**Opening Remarks - Senator Rice and Representative Addis, Co-chairs**

Co-chair Addis welcomed the committee and the public to the meeting. He called for the approval of the August 21, 2020 minutes. **Senator Woodward made a motion to approve the August 21, 2020 minutes. Representative Furniss seconded the motion. The motion passed by voice vote.**

**Fund Balances for Local Taxing Districts - Keith Bybee, Deputy Division Manager, Budget and Policy Analysis Division, LSO**

Co-chair Addis called upon Mr. Bybee to present. Mr. Bybee stated his intent to discuss an [analysis of local government fund balances](#). He explained that the goal of the analysis was to determine whether cash balances could be considered reserve funds for local taxing districts. He noted that it is not currently possible to determine the amount of budgeted cash reserves for all local government taxing districts. He commented that some local governments describe saving strategies and define how much money is currently in budget reserves, but the number of districts that have policies outlined in their audits is less than 5% of all the audits submitted to the Audits Division in LSO.

Mr. Bybee referred to the expenditure column on the analysis and reminded the committee that this information was derived from audits that were dated from 2019 and 2018. He clarified that these expenditures were not current. He proceeded to the column "average monthly expenditures" and explained that all expenditures were divided by 12 to produce an average amount of expenditures over the year, which may overstate or understate the first three months of the year. He then calculated the three-month and six-month benchmarks using the average monthly expenditures calculations.

Mr. Bybee directed the committee to the unassigned and assigned fund balances. He explained that the Government Accounting Standards Board requires four broad categories of fund balances: 1) Restricted fund balances 2) Committed fund balances 3) Assigned fund balances 4) Unassigned fund balances. He noted that the 5% of local taxing districts that had a saving strategy were categorized as unassigned or assigned balances. He commented that schools have a negative balance in this category and explained that this is because they restrict or commit those funds for a specific purpose (e.g., supplemental levy, override levy).

Mr. Bybee explained that CPAs are well versed with the rules and standards on how to break down fund balances into specific sources, but oftentimes leave the categorizations up to the government body to enforce at the policy level.

Discussion

Senator Guthrie noted the disparities in the school row and asked whether this was because expenditures were built into the analysis but revenues were not. Mr. Bybee believed this was the case. He explained that schools' local funds are being used in a category that were not included in the assigned or unassigned fund balances because there were no definitions from a local savings strategy. He noted that schools rely on a significant amount of state funding to run their local budgets and that may explain the negative fund balance.

Senator Burgoyne suggested that the general accounting rules do not necessarily help put the Legislature in the position to analyze financial data for public policy decisions. He explained that the type of data submitted to the Audits Division is provided for an entirely different purpose. He noted that they were attempting to extrapolate what they can to make public policy decisions. Mr. Bybee believed that this statewide publicly available data could be a starting point for analysis.

Senator Anthon emphasized the need for a differentiation between cash reserves for three or six months of operational expenses and capital needs, which would vary significantly among taxing districts.

Representative Gannon asked whether this analysis could break down how property taxes are being used in each fund. Mr. Bybee responded that he did not have the categorization of fund balances in terms of property taxes.

Senator Burgoyne commented that the State of Idaho has rainy day funds, which may potentially become a rather large surplus, and emphasized the need to be cognizant of state policy in terms of its own government reserves.

#### **Non-tax Shift Property Tax Reduction Suggestions - Russ Hendricks, Director of Governmental Affairs, Idaho Farm Bureau**

Co-chair Addis called upon Mr. Hendricks to present next. Mr. Hendricks stated that, over the last 20 years, he has witnessed at least five different interim committees work on property tax issues. He expressed appreciation for the approach that this committee is taking to delve further into the issues and data relevant to property taxes. He suggested that, in the taxpayers' view, the taxing system is tilted in favor of the taxing districts. He emphasized how much the members of the Idaho Farm Bureau appreciate the Co-chairs emphasis on not shifting taxes. He defined a tax shift as requiring a taxpayer to pay the taxes for a service that another taxpayer is receiving. He opined that the homeowner's exemption is a tax shift; it does not reduce the total amount of property taxes collected, it simply shifts who pays it.

Mr. Hendricks provided a list of suggestions for reducing taxes:

- Consider reducing the number of mandated services;
- Greater flexibility for taxing districts to privatize services (e.g., garbage services, DMV);
- Provide additional taxing options for citizens;
- An increase in price transparency on property tax bills; and
- Give taxpayers more power in determining budget growth.

Mr. Hendricks stated that not every taxpayer wants or makes use of every service that is available to them that they have to pay for. He suggested that a taxpayer's base property taxes should be comprised of any services that are deemed mandatory by the state. He added that taxpayers should be able to opt out of paying for any services that they do not plan to use and are not considered mandatory by the state. He recommended a reasonable budget growth, which could only be exceeded for a specific time, specific amount, etc. and require passage by the taxpayers' vote.

Mr. Hendricks stated that the taxpayers need more certainty, more equity, and more nexus in between what is paid in taxes and what is received in services. He suggested that the state had drifted too far from these principles and it was time for a course correction.

## Discussion

Senator Burgoyne stated that there was no incentive for the state not to mandate services. He explained that if there is not enough funds distributed to local governments to cover the cost of mandated services through the state tax formula, then property taxpayers have to make up for the remainder of service costs. He suggested that one way to incentivize the state to reduce the number of mandates would be to require the state to pay for mandated services. Mr. Hendricks responded that this could be an option for discussion. Senator Burgoyne commented that a structural problem with property taxes is that counties, cities, and school districts are not necessarily coordinating with each other on budgetary issues that affect property taxes.

Co-chair Rice commented that the state of Washington sets an overall cap on property taxes and caps for different categories. He explained that if any category is exceeded within a budget, then it is reduced if the overall cap has been reached.

Representative Vander Woude asked Mr. Hendricks whether he considered the sales tax exemption for agriculture a tax shift, and if so, should it be eliminated. Mr. Hendricks responded no. He explained that the agriculture industry is exempt from paying sales tax just like any business that is wholesaling or manufacturing goods. He further explained that sales taxes are levied at the retail end by the final consumer.

Representative Necochea inquired about allowing the collection of impact fees for education. Mr. Hendricks responded that the Idaho Farm Bureau was supportive of impact fees to pay for education. Representative Necochea stated that a tax shift is occurring each year. She noted that from 2018 to 2019 in Ada County, residential property taxes increased 11.6% and agriculture property taxes decreased 11.5%. Mr. Hendricks reiterated his definition of a tax shift. He suggested that more homes are being built in the area and there is now less farm ground so that the total proportion of property taxes in the total pie would increase for residential property. He noted that given the large influx of people moving to Idaho and housing shortage, housing prices are increasing significantly and taxpayers are paying more in residential property taxes accordingly.

Senator Burgoyne stated that, property inflation aside, a shift of taxes between business and residential property taxes became quickly apparent when the homeowner's exemption was changed in 2016. He noted that a professor from BYU-Idaho, who presented at a 2019 Property Tax Working Group meeting, concluded that businesses have been overpaying in property taxes because he did not consider indirect benefits although he agreed that there were indirect benefits from education, which comprises a significant amount of residential property taxes. Senator Burgoyne asked if the 2016 legislation is repealed and statute was reverted to what it had been before, wouldn't the tax shift be eliminated. Mr. Hendricks disagreed and suggested that the tax shift had occurred prior to the 2016 legislation due to indexing, but since then has not occurred because the indexing is gone.

Representative Moyle emphasized the need to focus on reducing property taxes and not implementing a tax shift. He suggested delving into the local government budgets to see where costs can be reduced.

Representative Gannon asked how fair and consistent market valuations can be conducted for all properties. Mr. Hendricks reminded the committee that budget growth causes the property taxes to increase and not necessarily property assessments. Representative Gannon noted that some tax-exempt properties (e.g., HP campus) are causing an increase in property taxes for property owners given that property taxes were paid on this property until the state purchased it. Mr. Hendricks acknowledged that the tax that the parcel was paying has been dispersed among every property owner within that taxing district and those taxpayers are now paying a little more in property taxes.

## **Non-tax Shift Property Tax Reduction Suggestions - Alex LaBeau, President, Idaho Association of Commerce and Industry (IACI)**

Co-chair Addis called upon Mr. LaBeau to present next. Mr. LaBeau remarked about the number of years that the state has been discussing property taxes. He listed a number of items that may help reduce property taxes in the short term:

- Uniformity in budget categorization and reporting across all taxing districts;
- Increase in system transparency;
- Reporting of statewide debt and taxing district debt;
- Limit forgone balance to one-time expenditures;
- Discuss the possibility of the state funding the judiciary;
- Eliminate the personal property tax; and
- Eliminate taxes on the investment of new equipment.

Mr. LaBeau stated that the personal property tax is an ongoing tax shift back to homeowners. He said that it's a tax that is only paid by businesses that are valued at over \$100 thousand (17% of all businesses in Idaho). He explained that it's a tax that is assessed on equipment used to operate a business that also depreciates over time and the ongoing shift occurs every year.

### Discussion

Representative Vander Woude asked what the cost would be to eliminate the personal property tax. Mr. LaBeau responded that the cost is unknown given the lack of a transparent and uniform reporting system.

Representative Gannon asked whether there was a fair way to approach assessing the value of businesses or business properties. Mr. LaBeau responded that it would be difficult to discern the value of the business operations. He emphasized that proprietary information could not be used to assess the value of a business.

Senator Burgoyne suggested that the state should significantly reduce property taxes as a proportion of all taxes in the state or eliminate it altogether. Mr. LaBeau noted that to do so the state would need to substantially reduce the number of taxing districts in the state. He also noted that, if the state were to eliminate property taxes altogether, local control would be severely reduced.

### **Discuss Uniformity and Transparency For Local Taxing Districts**

Representative Gannon stated that he would like to better understand the property assessment process especially with regard to residential properties. He also noted the lack of an assessment method for commercial properties.

Representative Monks emphasized the need for uniformity in budget categorizations to be able to compare and analyze local government spending.

Representative Necochea suggested reviewing how data and budgetary information will be made available by local governments and also how the process of compiling and providing this information will be paid for, especially with regard to small counties.

Senator Burgoyne agreed that uniformity is needed, but property tax is a very complicated tax. He noted that there are legal issues that vary among counties, which have not yet been resolved. He suggested investing money in appraisals to achieve uniformity and consistency on property valuations. He emphasized the need to reduce property taxes significantly so that the inequities in the system do not appear so crucial.

Co-chair Rice commented that county assessors perform assessments, not appraisals, to determine property taxes. He suggested that assessments are not that inaccurate. He reminded the committee that there are very good and practical reasons for the differences in how different properties are valued.

The committee recessed for lunch at 12:10 p.m.

The committee reconvened at 1:33 p.m.

**City Non-tax Shift Property Tax Reduction Suggestions - Kelley Packer, Executive Director, Association of Idaho Cities (AIC)**

Co-chair Addis called upon Ms. Packer to present. Ms. Packer noted that Idaho has 200 incorporated cities and most of them are very small. She emphasized the need to examine how policy will affect both rural and urban cities. She noted that due to the rural nature of some cities, many of them do not have their own police force or emergency responders; they contract for these services through the county. She stated that, while they suspected that COVID-19 would have some type of negative effect on revenue streams, the cities have been fortunate to not have felt a severe financial impact, although some negative. She elaborated that cities had expected to see an 11% reduction in transportation revenue streams, but so far had experienced a 5.5% reduction.

Ms. Packer emphasized that cities would like to work with the Legislature to understand what services are necessary or unnecessary and what the proper funding mechanisms should be for funding these services. She commented that cities agree with the committee's efforts to increase transparency and to provide for additional budgetary information on Transparent Idaho. She stated that having the data available will help local officials know where improvements can be made for their local residents. She noted that only eight cities in Idaho have a population of 55 thousand or more and a one-size-fits-all approach would not be beneficial for the cities in Idaho.

Ms. Packer informed the committee that AIC is taking a comprehensive look at how taxes are collected and remitted including whether cities are underfunded or overfunded in areas. She stated that they are actively putting together a coalition of legislators, local officials, taxpayers, businesses, etc. to review the tax policy as a whole in Idaho and to also examine tax policy in other states. She noted that AIC supported H354 in the 2020 legislative session. She emphasized that AIC would like to see the committee continue to work on the transparency and uniformity concerns to better assess and understand the landscape and implement the right solutions going forward. She suggested reviewing whether the homeowner's exemption should be increased or not and whether cities should be allowed to provide additional exemptions. She also suggested improving the circuit breaker. She emphasized the need to ensure that schools, especially in rural areas, and transportation are properly funded.

Ms. Packer encouraged the committee to review tax policy from a holistic perspective of both rural and urban cities, from region to region, statewide, and from the tax base of all taxpayers.

Discussion

Co-chair Rice commented that cities can currently charge a person with a misdemeanor for violating a city ordinance. He asked whether cities have discussed eliminating the cities' ability to create misdemeanors and how this might reduce court costs. Ms. Packer responded that the discussions she's had with cities include state mandates on prosecuting misdemeanors and the sentiment that fees and fines have not been adjusted in a significant period of time and in turn do not cover costs. Co-chair Rice inquired about overlapping responsibilities among cities and counties that would cause residents to pay twice for services that they only receive once or not at all. She responded that it's difficult to discern given revenue sharing and how property taxes are divided.

Senator Guthrie inquired about the indexing prior to the 2006 legislation. Ms. Packer responded that they believe it would be beneficial to return to the indexing prior to the 2006 legislation.

Representative Moyle asked whether the cities are proposing increasing the homeowner's exemption. Ms. Packer responded that cities would like to find a more balanced formula among all property owners. Representative Moyle asked why some cities have not accepted CARES funding to provide residents some property tax relief. Ms. Packer responded that some cities did not accept CARES funding due to legal advice and over concerns that they would have to pay the funds back.

## **County Non-tax Shift Property Tax Reduction Suggestions - Seth Grigg, Executive Director, Idaho Association of Counties (IAC)**

Co-chair Addis called upon Mr. Grigg to present. Mr. Grigg directed the committee to the pie chart on page 2 of his [presentation](#) that shows the property tax distribution by category for 2018. He acknowledged that counties receive funding from the state. He noted that, of the \$600 million of county levies, about \$200 million is provided to counties for county services. Mr. Grigg informed the committee that, earlier this year, he had discussed the possibility of counties voluntarily submitting budgetary information to the State Controller's Office (SCO) to provide for more transparency, but soon after the COVID-19 pandemic started and conversations on this issue were placed on hold. He emphasized that counties wish to continue these conversations with the SCO and the Legislature.

Mr. Grigg noted that the state has one statewide, uniform accounting system, unlike the various accounting systems used by local governments, which makes it easy to access and filter state data. He emphasized the critical need for the state to specify what information is to be reported from the counties and other local governments and how it should be reported. He commented that counties should be able to specify in their reporting how much of their reserves is being saved for capital purposes.

Mr. Grigg stated that IAC surveyed its members regarding their most pressing issues and in most cases their primary concern was population growth due to the challenges that it presents with regard to expenditures (e.g., road maintenance, court costs). With regard to inefficiencies and duplication of services, he noted that the DMV is a shared service between counties and the Idaho Transportation Department (ITD).

### Discussion

Co-chair Rice asked whether counties are willing to eliminate the ability to create misdemeanors. Mr. Grigg responded that counties are open to the conversation; it may depend on the topic. Co-chair Rice inquired about the steps counties have taken to provide permanent property tax relief with the estimated \$20 million annual savings from Medicaid expansion. Mr. Grigg responded that many counties are not taking the full 3% cap this year and noted that counties are still obligated to provide indigent services for those who do not qualify for Medicaid, which reduced the estimated \$20 million in savings. He referenced draft language with regard to indigent services (slide 16). Co-chair Rice asked whether the counties would support legislation to ensure that property tax relief is provided from Medicaid expansion savings. Mr. Grigg responded yes, as long as revenue sharing stays intact and the Indigent Services Program is repealed.

Senator Grow asked whether Mr. Grigg was advocating for the Legislature to determine the uniformity of county budget reporting. Mr. Grigg responded that IAC does not hold any enforcement over their members. He emphasized the importance for local government control regarding what accounting systems are used among the various taxing districts. He clarified his request for direction from the state regarding what information should be reported and how it should be reported.

Representative Monks asked how the counties can guarantee that property tax relief will be provided with the savings from Medicaid expansion. Mr. Grigg reminded the committee that Medicaid expansion was triggered just this year and counties did not see a decline in expenses during the first six months, but he anticipated that they would begin to see a decline soon. He added that \$8 million of the \$20 million in estimated savings has been allocated for mental health (e.g., involuntary commitments). He noted that the CAT program requires the counties and the state to pay for some health expenses; the remaining \$12 million would be used to cover these expenses.

Representative Gannon asked whether there was a local option tax, besides sales tax, that might work for counties. Mr. Grigg responded that he could not think of any that would be supported outside of sales tax.

Co-chair Rice reminded Mr. Grigg that he had requested proposals for property tax relief from the counties last year and did not receive any. Mr. Grigg responded that some draft language was included in the committee's handout today.

Senator Guthrie asked whether the mandated services were unfunded or underfunded. Mr. Grigg responded that they were probably closer to underfunded because the state does provide funding to local governments. He commented that the top underfunded services would probably be public defense, courts, and driver licenses. Co-chair Rice commented that two of those services existed before statehood and the other is a fee-for-service. Senator Burgoyne noted that it is difficult to determine what county services are being paid with property taxes and the sales tax distribution. He encouraged the committee to find ways to fund government services that are less burdensome for taxpayers.

Co-chair Rice asked whether there are services that are provided below cost and supplemented with tax dollars. Mr. Grigg responded that court fees have not been increased for decades, but he could perform a thorough review.

Representative Necochea noted that Ada County saw a savings of \$4 million from Medicaid expansion and had a budget reduction this year. She emphasized that property owners should not be subsidizing fee-for-services. Mr. Grigg offered to perform an accounting on how Medicaid expansion funds were used among its county members.

The committee recessed for a break at 3:09 p.m.

The committee reconvened at 3:20 p.m.

#### **Property Tax Reform Suggestions - Fred Birnbaum, Vice President, Idaho Freedom Foundation**

Co-chair Addis called upon Mr. Birnbaum to present. Mr. Birnbaum directed the committee to slide 1 of the [presentation](#) and noted that the collection of property taxes, among other taxes, has grown faster than inflation. He suggested that typically the rule for reviewing budgets that support public services has been to examine the population plus inflation to account for an increase in services. He suggested that the taxes in 2019 were \$450 million higher than inflation plus population growth. He compared current property tax growth and property tax growth based on population plus inflation and suggested that taxpayers could save \$1 billion over the next 10 years if taxing districts budgeted according to population growth plus inflation.

Mr. Birnbaum emphasized the need to improve the assessment process and reduce variation (slide 4). He stated that, with regard to transparency, tax bills should compare budget with same budget level versus proposed budget. He advocated for eliminating forgone balances. He suggested revealing the costs of state mandates imposed on local governments. He also suggested limiting tax increases (slide 6).

#### Discussion

Co-chair Rice inquired about the average yearly increase of the percentage of population plus inflation. Mr. Birnbaum responded that it would vary yearly, but the consumer price index (CPI) is running well under 2% and believed that population plus inflation would be about 2 to 2.5%.

Senator Burgoyne stated that the idea that property tax growth has outpaced property tax growth based on population plus inflation may ignore that if the state is not funding education sufficiently then property taxes are implementing levy overrides to make up the difference. He suggested that if the state funded education properly, the chart would look differently. He also noted that many citizens appreciate the value of better roads, which are funded by property taxes. Mr. Birnbaum responded that he did not accept the premise in regards to education funding. He added that due to lack of transparency, it's difficult to determine how much property taxes went to funding better roads. Senator Burgoyne agreed that transparency is important and appreciated the need for taxpayers to determine whether the value was worth the cost or not.

Representative Gannon asked, with regard to the chart, if one of the factors for the increase of property taxes is that the growth may not be paying for itself. Mr. Birnbaum responded that it is a difficult question to answer. Representative Gannon suggested that the only way to provide tax relief without tax shifting would be to implement some type of annual cap on assessments increases or provide a modest increase on the homeowner's exemption. Mr. Birnbaum suggested reviewing property tax exemptions and providing transparency on tax bills.

Senator Guthrie asked Mr. Birnbaum what he would suggest to eliminate the temptation for local governments to take the entire 3% cap each year if forgone is eliminated. Mr. Birnbaum responded that his suggestion for eliminating forgone included limiting property tax increases to 2%.

Representative Necochea expressed interest in what the chart would look like if education supplemental levies and bonds were excluded. Mr. Birnbaum suggested that the effect of excluding the supplemental levies from the chart would not produce a dramatic effect.

### **Public Testimony**

Co-chair Addis announced that no one had signed up for public testimony.

### **Committee Discussion**

Senator Burgoyne suggested that in order to properly consider property tax solutions, the committee should discuss both shifting and non-shifting when it comes to taxes. He proposed the following ideas: 1) Lessees should pay a replacement tax to make up for the property tax loss when they lease public property 2) Perform a means test on circuit breakers 3) Appraisals and assessment uniformity and consistency. He suggested that property taxes should be reduced significantly and that the state should increase funding for underfunded mandates.

Co-chair Rice stated that it would be appropriate to possibly make changes to how government is funded. He suggested a budget cap that would include forgone, new construction, and annexation; any increase beyond that would require approval from taxpayers.

Representative Gannon suggested looking into impact fees to pay down bonds. He noted that many people are being pressured out of their homes due to the increase in tax increases. He suggested increasing the circuit breaker but modestly reduce the overall program cost. He spoke with the Idaho State Tax Commission about limiting the circuit breaker to home values of \$300 thousand and those who are eligible for the circuit breaker but own homes that exceed \$300 thousand could enter into the state tax deferral program. He stated that the Tax Commission estimated a 10% reduction of cost in the circuit breaker program. He also suggested providing state funding to rural counties to help offset the loss in property taxes on federal lands in addition to the payment in lieu of taxes (PILT) funding provided by the federal government.

Senator Guthrie expressed interest in reviewing whether the intent of the 2006 Special Session Legislation to put the additional 1% in state sales tax toward funding school maintenance and operations, and decreasing property taxes in return, is being upheld by the state. He offered that once a homeowner reaches the age of 65, the property assessment would remain constant. He suggested that assessments could be assessed on square footing. He emphasized that he may not necessarily agree with all these suggestions, but believes that the ideas are worth consideration. He suggested that the committee should decide whether they would or would not entertain a tax shift by increasing the homeowners exemption, noting that poor homeowners would feel the brunt of it should the Legislature increase it.

Co-chair Rice explained that one of the goals for the meeting was to provide the public with insight regarding what ideas were being discussed. He believed that if consensus could be found on a potential solution, then legislation could certainly be drafted and recommended on behalf of the committee. He suspected that some of the committee's work could produce additional solutions for property tax relief down the road as well.



Representative Monks opined that budgets should be examined first before other items such as impact fees, tax exemptions, etc. are reviewed and considered.

Co-chair Addis noted that the committee has the opportunity to make structural reforms to minimize the need to examine this matter frequently throughout the upcoming years. He commented that an increase in transparency modifies behavior.

Representative Vander Woude suggested eliminating the Catastrophic Health Care (CAT) fund and Indigent Fund.

Representative Necochea expressed a willingness to meet more frequently as a committee to consider the potential solutions before session. She would like to discuss adjusting the homeowner's exemption including shielding lower value homes.

Senator Grow suggested delving into the issue of school funding especially since it comprises such a significant part of the budget.

Co-chair Addis encouraged the committee to continue sharing their ideas with the Co-chairs. He noted that the upcoming meetings would spend much more time on discussing potential solutions and draft legislation.

The committee adjourned at 4:44 p.m.