

MINUTES
SENATE LOCAL GOVERNMENT & TAXATION COMMITTEE

DATE: Wednesday, February 15, 2023

TIME: 3:00 P.M.

PLACE: Room WW53

MEMBERS PRESENT: Chairman Ricks, Vice Chairman Schroeder, Senators Grow, Cook, Adams, Bernt, Trakel, Rabe, and Just

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 Ricks** called to order the Senate Local Government and Taxation Committee (Committee) at 3:02 p.m.

MINUTES APPROVAL: **Vice Chairman Schroeder** moved to approve the minutes of February 7, 2023. **Senator Trakel** seconded the motion. The motion to approve the minutes of February 7, 2023 was approved by **voice vote**.

PRESENTATION: Property Taxes and Assessments. **Kathlynn Ireland**, Property Tax Policy Specialist, Idaho State Tax Commission, gave a presentation relating to property taxes and assessments (Attachment 1). Her presentation addressed the following topics: 1. the property tax assessment process, 2. who paid how much, 3. how property taxes were determined, 4. who spent property tax, 5. what were the recent trends, and 6. how we provided property tax relief.

The first step in the property assessment process was the assessment of all taxable real and personal property. This was done by county assessors with the exception of utility, telecom and railroad properties that the Idaho State Tax Commission (ISTC) appraised. Idaho Code § 63-205 required all taxable property to be assessed annually. Idaho was a market value state. Therefore, assessors were required to assess properties at 100 percent of market value. Because of the large volume of parcels within each county, Idaho Code § 63-314 required each parcel to be physically inspected once every five years. Appraisers used market data, market trends and statistical testing to index to market value parcels that were not physically inspected. January 1 of each year was the lien date of assessment of current market value. Slide four of Attachment 1 showed the total assessed values from 2005 to 2006, 2021 and 2022. Slide five of Attachment 1 showed the taxable property of each major category of property over the last 14 years. **Ms. Ireland** noted the difference between the residential and commercial sectors. ISTC conducted statistical testing on every assessor's office every year through the use of statistical studies to ensure that all parcels were at market value. If the market values were not accurate, counties were required to take corrective action prior to assessments going out in June. **Ms. Ireland** stated that due to Idaho's nondisclosure law, she was not confident that we were getting accurate data regarding commercial properties.

Slide six of Attachment 1 discussed various myths and facts related to who paid, who spent, how significant property tax revenue was, and what happened when existing values increased. **Ms. Ireland** stated that increases in the value of property did not precipitate additional budget capacity for a taxing district.

DISCUSSION: **Senator Grow** asked whether Ms. Ireland had stated that local budgets were not what caused a tax increase. **Ms. Ireland** explained that taxing districts had several avenues by which they could increase their revenue. Budgets could, by statute, only increase by three percent over and above the highest of the previous three years. This percentage was based on an integer that would represent the new construction in a district, some annexation, any allowance for dissolving urban renewal Revenue Allocation Areas (RAA), and any foregone they had reserved. Foregone was the unrealized budget capacity that was legally available to each taxing district, but the district chose to take less than the eight percent cap and reserve the remainder. If parcels were assessed at a higher rate one year over the previous year, that did not provide budget capacity to the taxing districts.

Senator Bernt asked Ms. Ireland to define "budget capacity." **Ms. Ireland** defined "budget capacity" as the difference between the base budget and the ability to increase the budget.

Senator Cook asked whether it was backwards that counties created a budget and then determined how much money they had. **Ms. Ireland** explained that counties established an annual budget, then subtracted available revenue in order to determine the amount to levy. This was separate from value.

PRESENTATION: **Ms. Ireland** discussed slide eight of Attachment 1 relating to value and payments for all residential property and that portion that was for primary residential or owner occupied. Slide nine of Attachment 1 showed the value of existing primary residential property and the rate of change in existing residential taxes from 2011 until 2022. She noted that the decrease in taxes in 2020 was due to the Cares Act which provided money for Covid-19 relief. The ISTC put out an annual Market Value and Property Tax Report each year that provided similar data regarding value and taxes. Slide ten of Attachment 1 showed the property tax calculation formula. Slide 11 of Attachment 1 illustrated the effects of changes in value on levy rates. If the taxable value increased, the levy amount decreased. An increase in taxable value did not increase the budgetary capacity.

DISCUSSION: **Senator Trakel** asked how an exemption would affect the levy rate. **Ms. Ireland** explained that an exemption lowered the total taxable value within that taxing district. Those with an exemption paid less while others paid more.

PRESENTATION: **Ms. Ireland** discussed limits on taxing districts to increase their budgets in slide 12 of Attachment 1. She defined a "non-exempt fund" as one that was not exempt from statutory limits. She explained that non-exempt funds were general operations funds of taxing districts and were limited to an increase of up to three percent over the highest of the previous three years. New construction value and annexation value increased budget capacity. H 389 passed in 2021 set a limit on budgetary increases related to those items of eight percent. In addition, there was an allowance for RAA within urban renewal districts. Once the urban renewal district terminated that RAA could be converted to budget capacity. Previously accrued foregone of up to one percent plus three percent for capital projects increased tax budget limits. Many taxing districts also had statutory limits to the actual levy rate.

Slide 13 of Attachment 1 illustrated property tax budgets for 2021 through 2022 based on the factors discussed for increasing budget capacity. Slide 14 of Attachment 1 graphed the percentage of property tax revenue allocated in 2022 to cities, school districts, highway districts, counties, fire districts, community college districts, cemetery districts and other areas.

Slide 15 of Attachment 1 provided detail regarding the changes in value of primary residential property, other residential property and commercial and residential property for 2021 through 2022. Slide 16 of Attachment 1 illustrated the overall property tax growth from 2004 through 2022 in counties, cities, school districts, highway districts and other areas. **Ms. Ireland** explained that this included both exempt and non-exempt funds. She noted that there was a dramatic drop in 2006 in property taxes levied by schools as a result of school maintenance and operations having been taken out of levies and replaced by one percent of the sales. And the amounts levied by cities and counties decreased in 2020 as a result of the Cares Act.

Slide 17 of Attachment 1 showed the non-exempt property tax funds from 2004 through 2022. **Ms. Ireland** explained that schools were no longer at the top because most school funds were voter approved. Slide 18 of Attachment 1 showed exempt funds from schools and exempt funds from other taxing districts from 2005 through 2022. **Ms. Ireland** explained that school funds were exempt because they were voter approved.

DISCUSSION: **Vice Chairman Schroeder** asked whether the non-school exempt funds included revenue bonds. **Ms. Ireland** asked Alan Dornfest, Idaho State Tax Commission (ITSC) Bureau Chief to respond. **Alan Dornfest** stated that if the revenue bonds were not paid with property taxes, they were not included.

PRESENTATION: **Ms. Ireland** explained that slide 19 of Attachment 1 included graphs of supplemental levy amounts from 1996 through 2022 and the number of counties levying supplementals. Slide 20 of Attachment 1 demonstrated the quantity of exempt and non-exempt tax levied by every taxing authority during 2021 and 2022. Slide 21 of Attachment 1 demonstrated who was collecting and reserving foregone statewide.

DISCUSSION: **Chairman Ricks** asked whether there was a cap to the amount of foregone they could reserve. **Ms. Ireland** responded that there was no cap, however, there was a limit to the amount of foregone that could be used in a given year of one percent plus three percent attributable to a capital project.

PRESENTATION: **Ms. Ireland** explained that slide 22 of Attachment 1 illustrated the amount of property taxes collected in Idaho in comparison to neighboring states. Slide 23 of Attachment 1 was a comparison of the property tax in Idaho in comparison to the United States.

Ms. Ireland discussed our property tax relief programs outlined on slide 24 of Attachment 1. The circuit breaker program provided a property tax credit of up to \$1,500 for those who were over the age of 65, disabled and had income below \$32,230 for the 2022 program. Next, there was the 100 percent service connected disabled veterans credit of \$1,500 with no income limit. Finally, there was the tax deferral program described on slide 25 of Attachment 1.

DISCUSSION: **Senator Rabe** asked Ms. Ireland to put together additional information regarding how much of the increase in primary residential property taxes on slide 15 of Attachment 1 was attributable to a shift from commercial to residential property, new construction, school bonds and levies and other factors. **Ms. Ireland** said she would be happy to provide that information. She noted that the property tax pie only increased by three percent which was very small. It was residential that captured the majority of the denominator calculation. Therefore, the levy rate being applied to residential property created the variance in property tax burden.

Chairman Ricks asked Brad Smith, Chief Deputy of Ada County Assessor's Office, if he would discuss how he calculated value and the relationship between the different calculations by the various counties. **Mr. Smith** explained that by law the value had to be market value. Twenty percent of properties had to be physically appraised each year. They used analytical information to determine market value for those properties not physically appraised that year. Smaller counties had less sales data that made the determination of market value more difficult. Idaho's non-disclosure law also made that determination more difficult. Each county obtained their own data and used the market value in their area.

PRESENTATION: Graduation of Page Josiah Knapp. **Chairman Ricks** asked Mr. Knapp to share about his experience as a Senate page and his plans for the future. **Mr. Knapp** shared that he appreciated seeing government up close and personal and building relationships with the Committee and others. He appreciated the opportunity to work in the Senate.

DISCUSSION: Vice Chairman Schroeder asked Mr. Knapp what his favorite song was. **Mr. Knapp** replied that it was previously anything by George Strait, but he had turned the corner.

Senator Cook asked Mr. Knapp what his plans for the future were. **Mr. Knapp** stated that he planned to attend the University of Idaho and ultimately practice law in the agricultural area.

Senator Bernt told Mr. Knapp that he showed a desire and gift for public service.

Chairman Ricks presented Mr. Knapp with a letter of recommendation from him, a letter from the Committee, and a couple of gifts in show of appreciation for Mr. Knapp's service.

ADJOURNED: There being no further business at this time, **Chairman Ricks** adjourned the Committee at 4:20 p.m.

Senator Ricks
Chair

Meg Lawless
Secretary