SARAH A. MILLER smiller@idahostatesman.com

New houses are under construction by Hubble Homes in a Nampa subdivision called Franklin Village. Franklin Village was built on former farmland. Under a new law, Idaho cities won't be able to increase their budgets as much as before to add services for growing areas.

Idaho cities grapple with Legislature's property tax law

BY RACHEL SPACEK AND SALLY KRUTZIG

rspacek@idahostatesman.com

skrutzig@idahostatesman.com

Idahoans have watched in dismay as their property taxes skyrocketed to unprecedented levels. Legislators promised that 2021 would be the year they solved the problem. An interim committee met last summer to study how to address it. Committee members spoke with city and county officials. They heard public testimony. They studied data, budgets and fund balances.

"I believe that right now we have a window, a historic opportunity to enact and recommend some long-term, structural and policy changes," the joint committee's co-chair, Rep. Jim Addis, R-Coeur d'Alene, said at the first meeting in July.

But as this year's historically long session neared its end, no property tax bill had been passed. Then, on May 3, in the penultimate week of the session, one was introduced: House Bill 389. It was rushed through the Legislature and ready for the governor's signature just two days later.

So it seemed lawmakers had, at long last, delivered on their promised property tax reform.

The only problem? Few understand it.

The law has been called "confusing" and "dysfunctional" by city leaders. Caldwell officials said it put the city in "imminent peril" before placing a 120-day moratorium on residential growth as it figures out what the law will mean. Some cities fear the law could hurt residents

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PROPERTY TAX

more than it helps them.

"I don't know that we have had a chance to do that deep-dive financial analysis. I mean the bill was introduced and had a hearing within four hours," said Kathy Griesmyer, director of government affairs for Boise.

Added Nampa Mayor Debbie Kling: "Today we can't say we know the long-term impacts that this bill will have on our city. Due to the complexity (of the bill), the tax commission just issued the guidance on how to interpret the bill."

But bill author Rep. Mike Moyle, R-Star, and his fellow Republicans insist the law will slow the rising property taxes that burden Idaho homeowners. The bill includes caps on increases to city budgets and a larger homeowner's exemption, both of which were implemented retroactive to Jan. 1.

"What we were doing with the cap was trying to say, 'Hey guys, you can't keep (raising) your budgets at these exorbitant rates and shifting it to existing property taxpayers and driving up the taxes," Moyle said.

It's still unclear what the new law means for cities' growth. As local governments scramble to readjust their budget preparations in light of the changes, the Idaho Statesman takes a look at what exactly this new property tax law means for cities and individuals.

LOCAL GOVERNMENT BUDGETS CAPPED

The impact of caps placed on city budgets as part of the law may be the least understood aspect of it.

Each year from May to August, local governments create their budgets. They factor in costs like police, fire, libraries, roads and parks. Each year, they can increase the property tax budget by 3% before factoring in growth.

However, cities may elect not to increase budgets by the full 3%.

Decades ago, lawmakers wanted to give cities some incentive not to take the full increase year after year. They did not want cities to feel they had to "use it or lose it," said Alan Dornfest, tax policy analyst with the Idaho State Tax Commission.

So the forgone program was created. The program allows cities to "bank" whatever portion of that 3% increase they don't take. Cities can then dip into those banked foregone taxes in the future if needed. For example, if a city only raised its property taxes by 2%, it banks that 1%. Then the next year, the city can raise its property taxes by 4%. In the program's 25 years of existence, the amounts of forgone property taxes have continually increased.

The new law caps the potential increase for local governments' property tax budgets. The total increase is limited to 8%, including forgone taxes, the annual 3% increase and revenue from new construction, annexation and expiring urban renewal districts.

GROWTH REVENUE LIMITED

The law caps at 90% the amount of revenue cities can add to their property tax budgets from new construction projects and annexation.

Cities say this cap will impact their ability to maintain city services because it restricts how much money they receive to serve areas of growth. In addition, if new construction pushes the property tax budget past an 8% increase, cities won't even be able to take 90%.

"It is unfortunate because this year is the largest new construction for the city of Nampa that we have had ever, and the 8% cap limits the city's ability to take all of the new construction dollars that are there," Kling said.

Legislators said the 90% cap on new construction, combined with the 8% cap on overall property tax revenue, will slow the growth of taxes on existing taxpayers. The city still collects the full property tax amount from new construction, so some of that money could reduce the amount needed from existing taxpayers.

City officials look at it differently.

"We tried to educate lawmakers that this idea that capping local budgets is the way that you get drastic and immediate property tax relief is a false narrative to perpetuate," Griesmyer said.

URBAN RENEWAL DISTRICT IMPACTED

The law also caps the revenue from expiring urban renewal districts at 80%. Boise, Caldwell and Nampa have urban renewal districts that will expire in the next five years.

The urban renewal program allows a city board to recognize a "blighted area" in the city and turn it into an urban renewal district. When the urban renewal board creates an urban renewal district, increased property tax revenue from the urban renewal area is diverted to projects that will improve the conditions of the area.

When the urban renewal district expires, the city can collect the revenue created by the increased value of the improvements made to the district.

HOW PROPERTY TAXES WORK

City budget increases related to growth do not alone cause an increase in property taxes for existing taxpayers. When a new development is built and people move in, those new taxpayers start paying taxes to the city for services for their new homes at the same levy rate as existing property taxpayers.

To determine what the new construction property tax revenue is in a city's budget, the city previously multiplied the taxable value of a construction project by the prior year's levy rate. That formula has a small impact on existing taxpayers when overall property taxes are rising, Bilimoria said.

Changing the formula to multiply the taxable value of new construction by the next year's levy rate eliminates the problem of existing taxpayers having to pay a small amount for new construction when property values are rising, Bilimoria said.

A levy is the amount a local government can collect on a tax rate. The levy rate is determined by dividing the city budget by its property owners' valuation. As a city's valuation goes up, the levy rate goes down. This new law requires cities to estimate what the next year's levy rate will be to ensure new construction is taxed at a lower levy rate when values are rising. It also reduces the amount of revenue that can be collected from new development through the 90% cap.

"Ultimately, this will make it more difficult for municipalities to maintain service levels when growth occurs," Bilimoria said in an email.

One way that property taxes increase is when the value of a given property increases faster than others. If a government entity's budget is $1 and there are two properties valued at exactly the same amount, both properties will pay 50 cents in property taxes.

If the value of one property increases, the other stays the same and the government's budget is still $1, the property that increased in assessed value could pay 66 cents and the property that remained the same 34 cents. If government budgets remain the same, taxes on properties with increasing assessed values still could increase. Those increases are not tied to city budgets.

"If your home's assessed value increased, you could easily see an 8% or greater increase, with a (local government) budget cap of 8%," Dornfest said.

WHAT THIS MEANS FOR LOCAL GOVERNMENTS

The impact of the property tax law is still unclear to local government officials, particularly in the long term.

"If we bring any new construction over that 8% cap, we have no revenue to find support of services for that new growth," Kling said.

Nampa is going to focus more on its fiscal impact study when it comes to approving new growth, she said.

"We have to make sure it can pay for itself," Kling said.

Meridian Mayor Robert Simison voiced the same concerns in a work session on Tuesday about the law's impact on the city. He said the city should be in decent shape in its ability to provide services to city residents, as long as Meridian does not take on additional growth in areas outside its plans.

"I think if the development community brings us projects in areas we are planning on growing, I believe we can accommodate that," Simison said.

Nampa has been one of the slower-growth cities in the Treasure Valley, Kling said, but it was this year that the city finally experienced tremendous growth.

Kling was looking forward to finally having enough money in the budget to build a new fire station in southwest Nampa; the city has been waiting to build it for more than 10 years. Impact fees will go toward construction of the building, but Kling said property tax dollars are needed to fund the staff to work there.

The police department also will be affected, she said.

"We won't be able to hire the number of police officers we need," Kling said.

Nampa Fire Chief Kirk Carpenter said preliminary estimates show the property tax budget caps will cause a three- to four-year delay in plans to build and staff fire stations.

Public safety is one of the largest line items in a city's budget.

"It takes 100% of the property taxes the city of Nampa can take to fund public safety," Kling said. "When you reduce the number of property taxes you can use, you are limiting a city's ability to fund public safety."

Though Boise has a much greater budget than Nampa, Griesmyer said Boise residents will feel the constraints as well.

"When folks move here, they expect that services ... will continue to be provided, and when the Legislature restricts what the city is able to collect to provide services to people, you are putting residents and the city at a really difficult place," she said.

In a meeting on Monday, the Caldwell City Council voted to place a 120-day moratorium on residential development. The council approved a resolution noting the city was in "imminent peril" because of the new law and the strains it brought on public safety services.

The staff is taking the 120 days to lay out a procedure for how to approve new growth while ensuring the city has the resources to provide emergency services to its residents.

It is crunch time for city financial departments in preparation of budgets, but Bilimoria has a rough estimate for what the new law will cost Boise over the next five years. He says it will be $7.5 million.

"That is seven and a half million dollars less of community services that can be offered at a time that we have more and more people moving into the city," Bilimoria said.

HOMEOWNER'S EXEMPTION EXPANDS

The bill increases the homeowner's exemption, a program that relieves homeowners from a portion of their property tax bills. The amount of a home's value exempt from taxes increases from $100,000 to $125,000 — or 50% of the home's assessed value, whichever is less.

The homeowner's exemption was created in 1980, exempting $10,000 of assessed value. The exemption was indexed in 1982, meaning it increased or decreased each year as property value assessments moved.

In 2016, Idaho lawmakers removed the indexing and capped the homeowner's exemption at $100,000. That cap and the increasing property tax assessments of residential properties has led to more of the property tax burden falling on residences instead of commercial and agricultural properties.

Local government leaders, like Kling, called for a much larger increase in the homeowner's exemption. She supported a bill introduced by Rep. Bruce Skaug, R-Nampa, that would have raised the homeowner's exemption and added indexing, but the bill never got a hearing.

Increasing the homeowner's exemption shifts some taxes from homeowners to other property taxpayers.

"That bill alone would have brought property tax relief for our citizens," Kling said.

Boise was also an advocate for indexing the homeowner's exemption. If an index was in place today, the exemption would be $150,000, Bilimoria said.

Data from the Idaho Tax Commission found last year only a third of properties were assessed below $200,000. Under previous law, any home valued at $200,000 or greater received less than a 50% exemption. Values in many parts of the state have soared far above the $200,000 threshold. Under current law, homes valued at $250,000 or greater will receive less than a 50% exemption.

For homeowners on the Boise Bench paying a property tax rate of roughly 1.303%, the increased exemption creates a potential savings of about $325 per year.

"It is going to save some money for some people," Dornfest said of the increased exemption.

CIRCUIT BREAKER CUTS SOME OUT

Those who use the Idaho Tax Reduction Program, known as the "circuit breaker" tax break, also will see some changes. The circuit breaker is a tax break for certain Idahoans with an annual income of $31,900 or less. Those who qualify include seniors, widows, minors without parents, prisoners of war or those with a disability.

Previously, circuit breaker qualifiers received a $1,320 property tax break per year. Under the new law, they will receive $1,500. The state pays for this program through the general fund.

However, the new law adds a stipulation that will disqualify some previously eligible homeowners: Your home cannot exceed 125% of the median value for all homes in the county receiving the homeowner's exemption. The rule is expected to eliminate 15% of current circuit breaker homeowners, according to Moyle.

Moyle said he and other legislators were concerned that some people who had small incomes but high-value homes were qualifying for the tax break.

"If you're living in a $2 million house and you're getting a circuit breaker, (it) was kind of concerning to some," Moyle said.

Kathlynn Ireland, consulting appraiser at Idaho State Tax Commission, estimated cases like that made up "less than 2%" of those in the program. Ireland emphasized that in those cases, the owners were still paying large property tax bills.

"We need to remember that that $1 million home may have a $15,000 property tax bill. So even if they qualify because they didn't have any income, they would get no more than $1,320 previously," Ireland said.

However, lawmakers and city leaders opposed to the change argued there are low-income Idahoans whose homes were once below 125% of the median value but have now risen above that as the state continues to see property across the state rise in value.

"Twenty-five percent above the median home value in these current conditions is still, in a lot of rural counties, a very low-value home. If you want to eliminate just the $1 million properties, certainly that could have been written into statute," Ireland said.

Rachel Spacek: 208-614-0371, @RachelSpacek
Sally Krutzig: @sallykrutzig

Expanded coverage of the Treasure Valley

Rachel Spacek and Sally Krutzig are the two latest additions to the Idaho Statesman's reporting staff. Rachel, formerly of the Idaho Press, covers West Ada County (Meridian, Eagle, Kuna, Star) and Canyon County. Sally, formerly of the Idaho Falls Post Register, covers growth and development. Contact Rachel at rspacek@idahostatesman.com; contact Sally at skrutzig@idahostatesman.com.