POLICY BRIEF

The pain is real: How to alleviate suffering caused by Idaho's worst tax

IDAHO FREEDOM FOUNDATION

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Real people, real problems:

> We built a home in Sandpoint [so] that we could afford the property taxes. BUT, they TRIPLED in 8 years, to the point we could not afford it. … We had to sell our home. … We are senior citizens now. We bought a smaller home, but we are now worried we won't be able to pay rising property taxes soon!
>
> ***- Carla, Sandpoint***

> As a 70-year-old woman my income is not much. … My property is paid for and each year as the property tax increases, I am in fear that I will be homeless, or forced to sell my home. Neither of these options make me happy. I do not want to be a burden on my kids.
>
> ***- Debra, Meridian***

> Every time my property taxes increase, I cut back on my standard of living. Having protested my taxes more than once to no avail, I just bite the bullet and seethe inwardly. Present city administration will never aquiesce to decreased taxes.
>
> ***- Robert, Boise***

Key points:

Property taxes in Idaho are primarily budget driven. In sum, property taxes increase as the spending unit they feed grows.

When thinking about property taxes in Idaho, keep these three things in mind:

1. Your property tax bill is generally a bundle of several taxing districts, not simply your county, which is in charge with assessing and collecting property taxes.
2. Those taxing districts are comprised of one or more levies or units as described in Idaho code.
3. Those taxing districts each have their own revenue stream.

An example:

Break out your calculators; It's time for a little math. Not too much, though. Using Ada County as an example, consider this formula: county budget to be levied/taxable property values = mill rate (charge rate per $100 of taxable value).

For tax year 2018, using the Ada County budget figure of $125,550,836/$45,561,351,698 of taxable property value = .002755643, or .2755643 per $100 of assessed value.[1]

Ada County's FY19 budget (tax year 2018)

Ada County's taxable property value:

$$\frac{\$125{,}550{,}836}{\$45{,}561{,}351{,}698} = .002755643$$

Mill rate:

.2755643 per $100 of assessed value

Additional insight:

The numerator ($125,550,836) in the above equation is the balance to be levied portion of the county budget, and that drives the equation. If we exempt some property from the market value, without changing the budget number, then the mill rate goes up for the remaining taxable properties. That means higher taxes for the non-exempt property owners.

Here's a real world example from a sample property tax bill in Ada County for tax year 2018. Total taxable value of said property is $298,400 after the $100,000 homeowners exemption is deducted from the home's assessed market value. Let's stick with the Ada County levy, but assume that the budget was $130 million, not the $125.5 million. If we assume the total county market value of property remains at $45.561 billion, then the mill rate would increase from .2755643 per $100 of assessed value (AV) to 0.2853296 per $100 of AV, and that line item on the example bill would increase from $822.28 to $851.42. This may seem small, but this is just one levy out of 10 on this sample tax bill.

Another example: Let's say we exempt the bills of a certain class of taxpayers, and that reduces the market value because we have exempted the value of this property from the market value calculation. It could be hospitals or government buildings. So, for example, the total taxable property market value of a district equals only $42 billion. Well, if the budget remained at $125.5 million, the mill rate would increase to 0.2989306 per $100 of AV, and the line item in that bill would jump from $822.28 to $892.01.

The levy rate that you see on your tax bill, shown as the taxing district levy (for Ada County), is comprised of sub-levies. For Ada County, there are eight funded sub-levies for: current expenses, charities and indigent care, public health, noxious weeds, parks and recreation, revaluation, district court, and veterans memorial. For 2018, there were 967 taxing districts throughout Idaho levying taxes, and those were comprised of one or more sub-levies.

To control property taxes, we must control the budget growth of a taxing districts, be it the city, county, highway district, or school district. Removing property from the calculation shifts the tax burden, as does creating exemptions. This is not to say the homeowners exemption is unfair, because there are always policy tradeoffs, like the increase in state sales tax in 2006 from 5% to 6% to be offset with a property tax maintenance and operation mill levy elimination. If we don't focus on government budgets and simply shift taxes from class to class, we won't address the cost driver: government spending increases.

Yes, government spending is capped with a formula that includes 3% budget increases per year, plus growth that includes new construction and annexation as outlined in Idaho Code 63-802. Revenue from non-property tax sources is excluded per subsection 4, "The amount of property tax revenues to finance an annual budget does not include revenues from nonproperty tax sources." The 3% cap might sound reasonable, but when growth and annexations are included as well as voter-approved levies, the result is much higher growth.[2] For 2018, the total statewide property tax charges increased by 6.4%, exceeding the 4.7% average growth of the past 23 years.[3]

The revenue sharing to cities and counties from the state sales tax is a separate line in their budget calculation. The dollar amount of the revenue sharing has been increasing rapidly, at nearly a 6% compounded annual growth rate (from 2010 to 2018).[4] Revenue sharing is excluded from the property tax amount to be levied , meaning that these revenues get added and are outside the spending growth cap. Going back to Ada County, the total property tax charge for all of the 40 taxing units within Ada County: Ada, cities like Boise and Eagle, school districts, etc. rose by 8.7% from 2017 to 2018. Note this does not mean everyone's bill went up by that amount. Idaho code allowed all of these units in aggregate to increase property taxes 8.7%, or about $48 million more than the prior year.[5]

A final note: While some suggest that Idaho pass a California-style Proposition 13 limitation on the value of property/tax growth when people stay in their homes, Article VII, Section V of the Idaho Constitution says: "All taxes shall be uniform upon the same class of subjects within the territorial limits..."[6] Thus, having different rates of taxation for the same home, depending upon who bought it and when, may not pass state constitutional muster.

Policy solutions:

Over the course of the last 40 years, Idaho property tax policy has changed significantly. Going back to the early 1970s, property taxes tended to increase at the rate of change of property values.[7] Periods of accelerated property tax growth were followed by various reforms and freezes. Idaho is at such a juncture today.

- Consolidate taxing districts and reduce the number of districts without reducing the responsibilities of cities and counties to provide services. This puts downward pressure on overall property taxes. Special purpose districts create additional revenue streams.

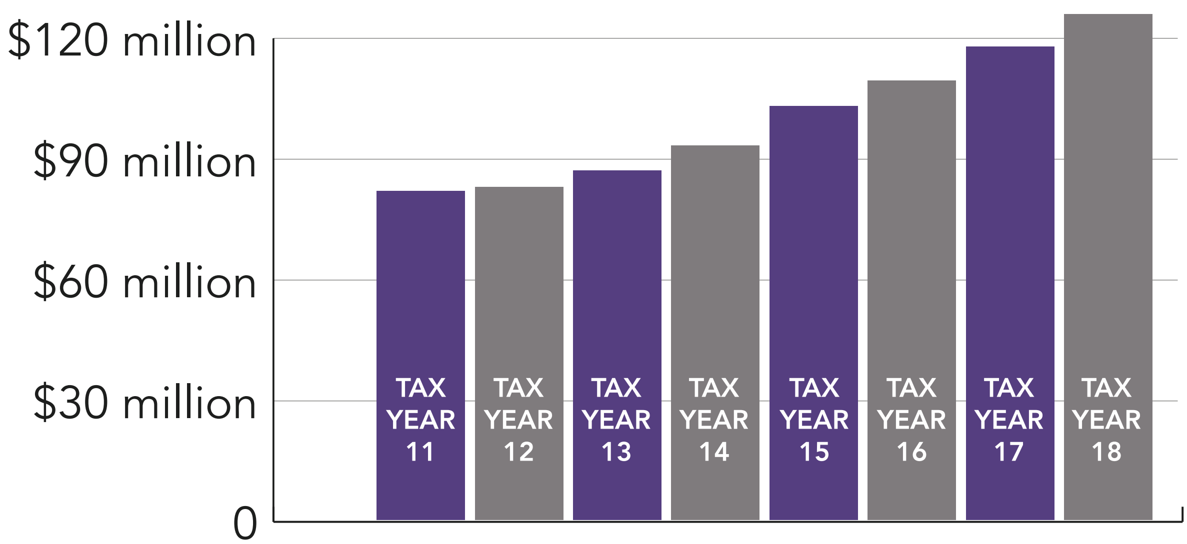
- Reduce the number of levies that cities and counties can use, or simply reduce the statutory maximum levy rates.

- Use excess revenues from revenue sharing sources to force a reduction in the certified property tax charge. Here is how: For Fiscal Year 2019, Ada County approved a budget of $198.4 million (note: this is not the all-funds budget). In this budget, $66.4 million comes from other sources, which includes sales and liquor tax revenue sharing, and $125.6 million to be levied via property taxes.[8] All told the state distributed $204 million of sales tax revenue and $36.6 million of liquor revenue to cities and counties in FY18. Both of these distributions have been growing in excess of inflation for years, with the growth in sales tax revenue sharing increasing nearly 6% annually.[9] To the extent that these shared revenues increase by more than 3% per year, that amount should be applied to decrease the amount to be levied via property taxes.

Table 1:

Ada County Property tax take growth – county levy funds only[10]

Excludes special taxing districts, cities, and schools within Ada County



Compound annual increase from 2011 to 2018 is 6.3%, which surpasses inflation and population growth. When citizens are told that the Ada County budget increases are limited to a 3% capped plus new construction, they don't realize that, in practice, this means that the actual budget increases more than 6%

Endnotes:

1. State of Idaho 2018, Property Tax Levies, produced by Associated Taxpayers of Idaho, page 2
2. 2018 Market Values and Property Taxes, Tax Commission Study, EPB00132_11-26-2018, page 2
3. Ibid, page 1
4. General Fund Revenue Book, FY 2020, page 37
5. State of Idaho 2018, Property Tax Levies, produced by Associated Taxpayers of Idaho, page 5
6. Idaho State Constitution, Article VII, Section V.
7. 2018 Market Values and Property Taxes, Tax Commission Study, EPB00132_11-26-2018, page 7
8. 2018 Dollar Certification of Budget Request to Board of County Commissioners L-2, Ada County, 9/17/2018
9. General Fund Revenue Book, FY 2020, pages 37, 46
10. 2018-19, Ada County Final Budget, adopted 8/21/18, page 12, 2014-2015 Ada County budget book, pg. 19