

## **Personal Property Tax Exemption Proposal Devastating To Idaho Public Schools**

A proposal (RS22034) is circulating that would enact the much anticipated personal property tax exemption. In a nutshell, this proposal would be devastating to the funding of Idaho's public schools. Other state programs (colleges and universities, health and human services, public safety, etc.) would be adversely impacted, but none to the degree of public schools.

RS22034 would completely exempt all business personal property from the property tax, yielding a property tax revenue loss estimated by the Idaho Tax Commission at \$140.9 million in FY 2012 dollars (after full phase-in over 6 years). Existing property tax levies across all taxing districts (with the exception of urban renewal districts<sup>1</sup>) would be eligible for a combination of a) replacement funding from the state's General Fund and b) property tax levy rate increases (i.e., a tax shift to real property).

The property tax levy rate increases (so-called "3% flooring") would cover the loss of the first 3% of the total property tax in each district, and is estimated to shift up to \$41.2 million of property taxes away from personal property, and on to real property. This shift would apply to all property tax districts (except urban renewal districts), and would result in higher property taxes on homeowners, farmers, timberland, and businesses with relatively small shares of personal property value.

Property tax replacement funding would apply to revenue loss exceeding 3% of a district's total property tax, and is estimated to cost the state's General Fund \$90.5 million<sup>2</sup> upon full phase-in. This replacement funding applies only to levies in place as of 2012, is fixed in perpetuity at the 2012 level (except in the case of voter approved levies), and is not available for levies enacted after 2012. In particular, any voter approved levies (school supplemental levies, bond levies, plant facility levies, etc.) that expire during or after the phase-in period lose their replacement funding, and any voter approved levies that are enacted in 2013 or beyond (school supplemental levies, bond levies, plant facility levies, etc.) are not eligible for replacement funding. This means that most non-school district levies (cities, counties, highway districts, etc.) are afforded perpetual replacement, while most school district levies (supplemental, bond, plant facility, etc.) will roll off and their replacement funding will be extinguished<sup>3</sup>.

Thus the design of RS22034 holds non-school taxing districts relatively harmless (in the near-term) by shifting up to \$41.2 million of property tax from personal to real property, and removing up to \$90.5 million from the state General Fund (that will not be available to fund education, health care, public safety, and other critical services provided by state programs) to replace revenue lost from the personal property exemption.

Public schools end up the big loser in what amounts to a three-pronged hit:

- 1) \$90.5 million is removed from the state General Fund, half of which is used to fund public schools. Idaho's public school funding effort has declined from 4.4% of Idaho personal income in the 1980's and 1990's to just 3.4% of Idaho

personal income in the 2014 Executive Budget. That's a 23% decline in a decade and a half, and represents a funding reduction of half a billion dollars. Losing another \$90 million of General Fund revenue to fund tax cuts will virtually guarantee continued decline in Idaho's public school funding effort.

- 2) Up to \$41.2 million of additional property tax levies are shifted to real property, and will have a high probability of making voters less inclined to support voter approved levies such as school supplemental, school bond, and school plant facility levies. The 2006 swap of increased sales tax for reduced school property tax levies was supposed to shift the responsibility for paying for school operating expenses off the property tax and on to state appropriations, but the reality is Idaho's school districts have been increasingly driven to raising property taxes to fund operating expenses. In the current school year (2012-13) voter-approved supplemental levies increased by 20%. Almost three-quarters of Idaho's 115 public school districts now have voter approved supplemental levies for operating purposes. Most will expire in one to two years.
- 3) No replacement funding for voter approved levies enacted after 2012 will mean schools are on their own with the reduced property tax base. Property tax base losses will range from less than 2% to over 50% across Idaho's public school districts (school district detail is shown in the attached Table 6, taken from Tax Commission report EPB0703\_01-15-2013). When these districts go to their voters for property tax levies they will have to ask for higher levy rates to raise the same amount of revenue. For example, if a district loses 20% of its property tax base to the personal property tax exemption, it will have to ask for a levy rate that is 25% higher to raise the same amount of revenue. If the property tax base loss is 40%, the levy to raise the same amount of revenue would need to be 67% higher. The current wide disparities in property tax capacity across Idaho's school districts will be exacerbated.

In summary, RS22034 is notable for the adverse impact it will have on Idaho's ability to provide funds for public education. It does protect non-school local government from much of the revenue losses associated with full exemption of personal property taxes, but it does so with a significant amount of revenue diverted from the General Fund, and without any apparent analysis of the impact that diversion of funds will have on state programs.

<sup>1</sup> Urban renewal districts are not eligible for replacement funds, but they can receive special shift levies if they can prove to the Idaho Tax Commission they are unable to make bond payments under the exemption of business personal property. Their shift levies would be applied only to the remaining increment values within the urban renewal district.

<sup>2</sup> This figure does not take into account voter approved levies that lose their replacement funding when they expire.

<sup>3</sup> As of the 2011-12 school year, school district property tax levies totaled \$393.0 million. \$139.6 million was in supplemental M&O levies, \$111.0 was in bond levies, and \$39.4 million was in plant facility levies. In the 2012-13 school year supplemental levies increased to \$169 million.

Table - 6

Schools Revised: 1/15/13	County(s) School District is Located In	2012 Total Approved Property Tax	Personal Property Tax						
			2012 Locally Assessed Tax	% P-Tax	2012 Operating Property Tax <sup>1</sup>	% P-tax	2012 Total Personal Property tax	% P-tax	Rank
# 1 Boise Independent	Ada, Boise	81,858,241	5,302,710	6.48%	2,513,915	3.07%	7,816,625	9.55%	66
# 2 Meridian	Ada, Canyon	48,909,266	1,960,631	4.01%	782,362	1.60%	2,742,993	5.61%	91
# 3 Kuna School	Ada, Canyon	6,882,091	143,135	2.08%	304,884	4.43%	448,019	6.51%	86
# 11 Meadows Valley School	Adams	296,004	27,348	9.24%	12,922	4.37%	40,270	13.60%	44
# 13 Council	Adams	138,368	4,819	3.48%	22,566	16.31%	27,385	19.79%	22
# 21 Marsh Valley	Bannock, Caribou	1,242,253	36,480	2.94%	266,222	21.43%	302,702	24.37%	18
# 25 Pocatello	Bannock	14,146,631	1,105,136	7.81%	332,625	2.35%	1,437,761	10.16%	64
# 33 Bear Lake	Bear Lake	976,493	10,321	1.06%	102,979	10.55%	113,300	11.60%	52
# 41 St. Maries	Benewah, Shoshone	1,660,981	189,538	11.41%	37,408	2.25%	226,946	13.66%	43
# 44 Plumer-Worley	Kootenai, Benewah	39,998	1,834	4.59%	1,248	3.12%	3,082	7.71%	74
# 44 State Authorized Plant Facilities	Kootenai, Benewah	668,869	30,662	4.58%	20,876	3.12%	51,538	7.71%	75
# 52 Snake River	Bingham	1,196,776	52,439	4.38%	83,584	6.98%	136,023	11.37%	56
# 55 Blackfoot	Bingham	2,474,873	282,950	11.43%	109,081	4.41%	392,031	15.84%	37
# 58 Aberdeen	Bingham	1,169,111	163,196	13.96%	67,534	5.78%	230,730	19.74%	23
# 59 Firth	Bingham	352,805	23,092	6.55%	23,405	6.63%	46,497	13.18%	48
# 60 Shelley	Bingham, Bonneville	1,428,254	117,054	8.20%	45,142	3.16%	162,196	11.36%	57
# 61 Blaine County	Blaine	38,183,706	284,086	0.74%	254,035	0.67%	538,121	1.41%	114
# 71 Garden Valley	Boise	1,075,726	10,109	0.94%	13,027	1.21%	23,136	2.15%	111
# 72 Basin	Boise	160,000	1,750	1.09%	2,712	1.70%	4,462	2.79%	110
# 73 Horseshoe Bend	Boise	190,187	17,952	9.44%	16,666	8.76%	34,618	18.20%	27
# 83 West Bonner County	Bonner	2,472,368	37,811	1.53%	41,869	1.69%	79,679	3.22%	41
# 84 Lake Pend Oreille	Bonner	7,075,909	229,293	3.24%	309,535	4.37%	538,828	7.61%	103
# 91 Idaho Falls	Bonneville	13,059,750	1,218,094	9.33%	171,287	1.31%	1,389,381	10.64%	61
# 92 Swan Valley	Bonneville	299,494	3,013	1.01%	1,079	0.36%	4,092	1.37%	115
# 93 East Bonneville	Bonneville, Bingham	12,494,292	722,491	5.78%	158,525	1.27%	881,016	7.05%	81
# 101 Boundary County	Boundary	2,240,925	86,903	3.88%	297,290	13.27%	384,193	17.14%	32
# 111 Arco	Butte, Custer	576,378	34,268	5.95%	31,338	5.44%	65,606	11.38%	55
# 121 Camas School	Camas	542,911	12,315	2.27%	21,962	4.05%	34,277	6.31%	87
# 131 Nampa	Canyon	11,404,093	979,252	8.59%	221,384	1.94%	1,200,636	10.53%	62
# 132 Caldwell	Canyon	4,727,545	639,198	13.52%	98,790	2.09%	737,988	15.61%	38
# 133 Wilder	Canyon	1,175,795	244,293	20.78%	30,692	2.61%	274,985	23.39%	19
# 134 Middleton	Canyon	2,871,769	33,867	1.18%	89,495	3.12%	123,362	4.30%	99
# 135 Notus	Canyon	140,408	1,352	0.96%	14,451	10.29%	15,803	11.26%	58
# 136 Melba	Ada, Canyon, Owyhee	800,061	18,757	2.34%	73,913	9.24%	92,670	11.58%	53
# 137 Parma	Canyon	1,242,130	61,412	4.94%	116,826	9.41%	178,238	14.35%	40

1 = Operating property was computed assuming that Electrics @55%.

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# 139 Vallivue	Canyon	8,302,800	828,199	9.97%	164,475	1.98%	992,674	11.96%	51
# 148 Grace	Bannock, Caribou, Franklin	460,707	8,631	1.87%	79,271	17.21%	87,902	19.08%	25
# 149 North Gem	Caribou	303,817	21,838	7.19%	84,794	27.91%	106,632	35.10%	7
# 150 Soda Springs	Bear Lake, Bonneville, Caribou	1,339,764	540,109	40.31%	104,698	7.81%	644,807	48.13%	2
# 151 Cassia	Cassia, Oneida, Twin Falls	3,282,930	398,557	12.14%	134,246	4.09%	532,803	16.23%	35
# 161 Clark	Clark	515,957	25,294	4.90%	110,666	21.45%	135,960	26.35%	15
# 171 Orofino	Clearwater, Lewis, Nez Perce	1,986,322	115,268	5.80%	38,321	1.93%	153,589	7.73%	73
# 181 Challis	Custer, Lemhi	311,062	57,077	18.35%	5,792	1.86%	62,869	20.21%	21
# 182 Mackay	Custer, Butte	241,713	3,127	1.29%	3,957	1.64%	7,084	2.93%	108
# 192 Glens Ferry	Elmore, Owyhee	317,111	10,256	3.23%	124,247	39.18%	134,503	42.42%	4
# 193 Mountain Home	Elmore	3,512,808	163,798	4.66%	467,592	13.31%	631,390	17.97%	28
# 201 Preston	Bannock, Franklin	990,571	28,891	2.92%	46,664	4.71%	75,555	7.63%	76
# 202 Westside	Bannock, Franklin	164,756	956	0.58%	32,900	19.97%	33,856	20.55%	20
# 215 Fremont	Fremont, Madison	2,398,133	33,581	1.40%	44,409	1.85%	77,990	3.25%	106
# 221 Emmett	Boise, Gem	2,099,462	88,861	4.23%	61,339	2.92%	150,200	7.15%	79
# 231 Gooding	Gooding, Lincoln	1,302,646	257,370	19.76%	101,331	7.78%	358,701	27.54%	14
# 232 Wendell	Gooding	985,768	32,007	3.25%	52,619	5.34%	84,626	8.58%	68
# 233 Hagerman	Gooding, Twin Falls	275,545	1,964	0.71%	17,154	6.23%	19,118	6.94%	82
# 234 Bliss	Elmore, Gooding, Twin Falls	133,510	7,932	5.94%	31,099	23.29%	39,031	29.23%	11
# 242 Cottonwood	Idaho, Lewis	408,475	22,425	5.49%	7,766	1.90%	30,191	7.39%	78
# 243 Salmon River	Adams, Idaho	552,794	21,001	3.80%	11,583	2.10%	32,584	5.89%	89
# 244 Mountain View	Idaho	2,354,565	135,218	5.74%	32,133	1.36%	167,351	7.11%	80
# 251 Jefferson	Jefferson, Madison	4,114,941	194,890	4.74%	124,743	3.03%	319,633	7.77%	72
# 252 Ririe	Bonneville, Jefferson	704,889	54,069	7.67%	18,322	2.60%	72,391	10.27%	63
# 253 West Jefferson	Jefferson	416,444	16,357	3.93%	43,589	10.47%	59,946	14.39%	39
# 261 Jerome	Gooding, Jerome, Lincoln	3,007,229	420,536	13.98%	104,323	3.47%	524,859	17.45%	29
# 262 Valley	Jerome	616,909	18,087	2.93%	81,843	13.27%	99,930	16.20%	36
# 271 Coeur d'Alene	Kootenai	15,986,918	575,372	3.60%	175,146	1.10%	750,518	4.69%	95
# 272 Lakeland	Bonner, Kootenai	6,939,104	329,947	4.75%	613,875	8.85%	943,822	13.60%	45
# 273 Post Falls	Kootenai	6,604,370	370,297	5.61%	149,841	2.27%	520,138	7.88%	70
# 274 Kootenai	Benewah, Kootenai	893,977	4,803	0.54%	20,783	2.32%	25,586	2.86%	109
# 281 Moscow	Latah	9,616,453	277,578	2.89%	133,151	1.38%	410,729	4.27%	100
# 282 Genesee	Latah, Nez Perce	1,206,732	40,451	3.35%	35,656	2.95%	76,107	6.31%	88
# 283 Kendrick	Clearwater, Latah, Nez Perce	1,044,014	22,687	2.17%	19,785	1.90%	42,472	4.07%	101
# 285 Potlatch	Latah	1,302,275	65,132	5.00%	19,903	1.53%	85,035	6.53%	85

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# 287 Troy	Latah	1,067,705	13,528	1.27%	23,958	2.24%	37,486	3.51%	105
# 288 Deary	Clearwater, Latah	876,117	11,742	1.34%	28,542	3.26%	40,284	4.60%	96
# 291 Salmon	Lemhi	394,686	12,787	3.24%	6,874	1.74%	19,661	4.98%	93
# 292 South Lemhi	Lemhi	22,898	210	0.92%	1,063	4.64%	1,273	5.56%	92
# 302 Nez Perce	Clearwater, Idaho, Lewis	493,699	10,417	2.11%	9,270	1.88%	19,687	3.99%	102
# 304 Kamiah	Idaho, Lewis	249,146	10,979	4.41%	3,187	1.28%	14,166	5.69%	90
# 305 Highland	Idaho, Lewis, Nez Perce	475,995	5,402	1.13%	8,884	1.87%	14,286	3.00%	107
# 312 Shoshone	Jerome, Lincoln	579,372	26,472	4.57%	115,970	20.02%	142,442	24.59%	16
# 314 Dietrich	Lincoln	117,185	1,335	1.14%	39,921	34.07%	41,256	35.21%	6
# 316 Richfield	Lincoln	420,415	188,158	44.76%	28,791	6.85%	216,949	51.60%	1
# 321 Madison	Madison	5,299,541	275,646	5.20%	72,362	1.37%	348,008	6.57%	84
# 322 Sugar Salem	Fremont, Madison	1,007,746	58,551	5.81%	26,345	2.61%	84,896	8.42%	69
# 331 Minidoka	Cassia, Jerome, Lincoln, Minidoka	2,820,694	383,005	13.58%	130,478	4.63%	513,483	18.20%	26
# 340 Lewiston Independent	Nez Perce	12,248,684	2,190,009	17.88%	212,684	1.74%	2,402,693	19.62%	24
# 341 Lapwai	Nez Perce	189,214	3,509	1.85%	9,488	5.01%	12,997	6.87%	83
# 342 Culdesac	Lewis, Nez Perce	251,349	3,675	1.46%	7,365	2.93%	11,040	4.39%	97
# 351 Oneida	Oneida	766,727	25,962	3.39%	106,194	13.85%	132,156	17.24%	30
# 363 Marsing	Canyon, Owyhee	528,527	20,300	3.84%	28,559	5.40%	48,859	9.24%	67
# 364 Pleasant Valley	Owyhee	9,395	520	5.53%	2,532	26.95%	3,052	32.49%	9
# 365 Bruneau-Grandview	Elmore, Owyhee	1,060,737	30,202	2.85%	275,286	25.95%	305,488	28.80%	12
# 370 Homedale	Canyon, Owyhee	837,106	42,870	5.12%	22,511	2.69%	65,381	7.81%	71
# 371 Payette	Payette, Washington	807,091	43,639	5.41%	46,984	5.82%	90,623	11.23%	59
# 372 New Plymouth	Payette	469,414	30,208	6.44%	132,166	28.16%	162,374	34.59%	8
# 373 Fruitland	Payette	1,073,231	142,604	13.29%	37,356	3.48%	179,960	16.77%	33
# 381 American Falls	Cassia, Power	3,449,297	886,316	25.70%	515,840	14.95%	1,402,156	40.65%	5
# 382 Rockland	Power	263,677	9,253	3.51%	25,668	9.73%	34,921	13.24%	47
# 383 Arbon	Power	38,654	449	1.16%	6,195	16.03%	6,644	17.19%	31
# 391 Kellogg	Kootenai, Shoshone	3,328,850	250,666	7.53%	209,186	6.28%	459,852	13.81%	42
# 392 Mullan	Shoshone	514,038	205,144	39.91%	15,650	3.04%	220,794	42.95%	3
# 393 Wallace	Shoshone	1,600,925	148,337	9.27%	117,154	7.32%	265,491	16.58%	34
# 394 Avery	Shoshone	176,879	3,777	2.14%	3,936	2.23%	7,713	4.36%	98
# 401 Teton County	Teton	4,611,739	59,576	1.29%	31,065	0.67%	90,641	1.97%	112
# 411 Twin Falls	Twin Falls	10,414,904	908,314	8.72%	137,441	1.32%	1,045,755	10.04%	65
# 412 Buhl	Gooding, Twin Falls	1,114,676	74,174	6.65%	76,902	6.90%	151,076	13.55%	46
# 413 Filer	Twin Falls	1,586,006	32,699	2.06%	142,074	8.96%	174,773	11.02%	60

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# 414 Kimberly	Twin Falls	1,420,535	30,393	2.14%	38,511	2.71%	68,904	4.85%	94
# 415 Hansen	Twin Falls	530,678	7,752	1.46%	56,437	10.63%	64,189	12.10%	50
# 416 Three Creek	Owyhee, Twin Falls	25,000	0	0.00%	7,065	28.26%	7,065	28.26%	13
# 417 Castleford	Owyhee, Twin Falls	323,375	0	0.00%	24,631	7.62%	24,631	7.62%	77
# 418 Murtaugh	Cassia, Twin Falls	367,869	5,266	1.43%	42,915	11.67%	48,181	13.10%	49
# 421 McCall Donnelly	Adams, Valley	8,150,105	93,390	1.15%	62,502	0.77%	155,892	1.91%	113
# 422 Cascade	Valley	1,231,336	13,937	1.13%	29,833	2.42%	43,770	3.55%	104
# 431 Weiser	Washington	698,086	19,228	2.75%	60,859	8.72%	80,087	11.47%	54
# 432 Cambridge	Adams, Washington	278,112	3,740	1.34%	64,237	23.10%	67,977	24.44%	17
# 433 Midvale	Washington	13,031	58	0.45%	3,939	30.23%	3,997	30.67%	10
<b>Total:</b>		<b>421,074,378</b>	<b>25,564,326</b>	<b>6.07%</b>	<b>13,038,455</b>	<b>3.10%</b>	<b>38,602,780</b>	<b>9.17%</b>	

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