



OFFICE OF THE MAYOR

MAYOR: Lauren McLean

Testimony of Kathy Griesmyer
Government Affairs Director, City of Boise
Property Taxes and Revenue Expenditures Committee
November 19, 2020

Members of the Property Taxes and Revenue Expenditures Committee:

As the conversation around property tax reform continues to take shape and evolve throughout the legislative process, I write today to offer the City of Boise's comments on the proposed draft bills that were publicized during the October 16th meeting. As the committee nears completion of its work before the commencement of the 2021 Legislative Session, we hope that this information illuminates opportunities for further collaboration around budget transparency, while also acknowledging the implications that some legislative drafts would have on municipalities' ability to respond to constituent needs in providing the services they both expect and enjoy. Please see below for additional information.

Draft DRKMF064 – Uniform Accounting for Local Government Entities

The City of Boise strongly supports efforts to increase transparency in budgeting at the local level, an initiative that we have always supported, including our recent investments (FY 2019-2021) in further transparency improvements, allowing increased awareness, access to information, and involvement in the budget process. Because of these efforts, Boise has a robust public engagement process as new budgets are being created, and we maintain a regularly updated website page that includes information to facilitate public engagement, budget highlights, and thorough reports of department specific expenditures. Moving forward, the City is currently endeavoring to create a more detailed online budget dashboard that will be launching next month and we've already had initial conversations with the State Controller's Office to express our interest in partnering with them in creating a state system that meets our shared transparency goals.

Draft DRKMF049 – Property Tax Funding Formula

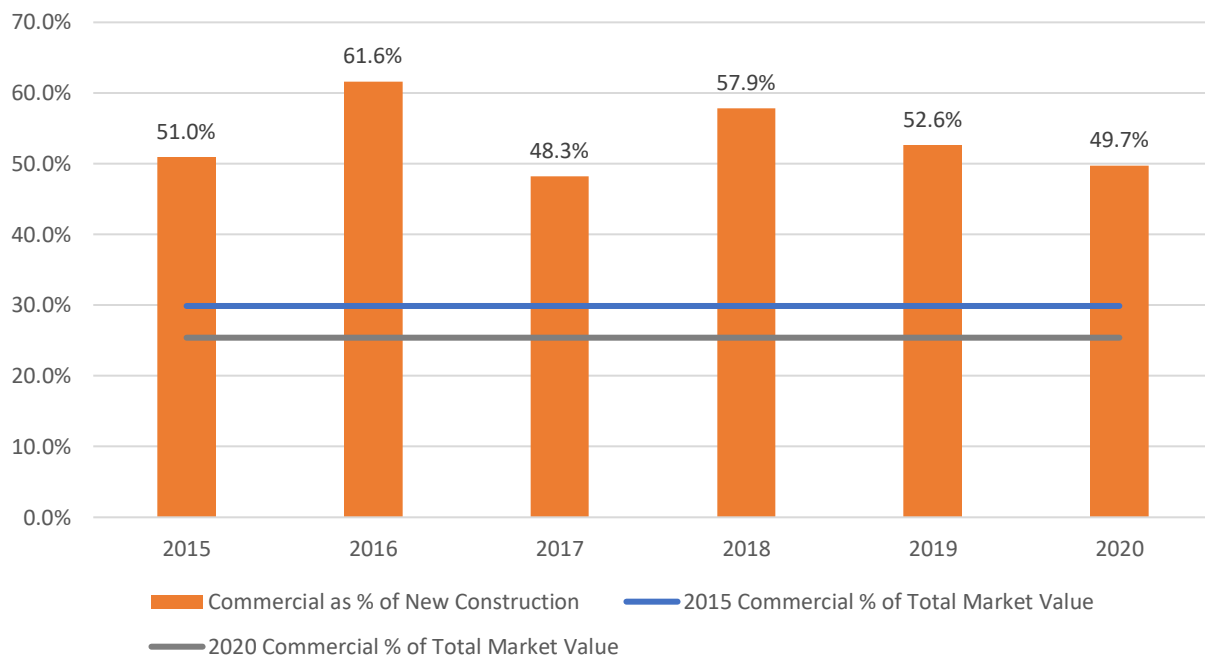
The weight of the property tax discussion rests on the balance of needing to provide concrete relief to residential taxpayers while also acknowledging that local government costs for services continue to grow as our collective state population increases. City of Boise leaders recognize the need to be judicious in the use of the taxes we receive from Boise residents and they have committed themselves to responding to the economic times we find ourselves in. For example, the City did not take any base property tax increase (0%) this year, and it participated in Governor Little's public safety property tax relief program, which will provide an average \$225 in savings to taxpayers this upcoming year. The City was able to take a 0% base increase in property tax this past year due to several significant cost savings measures, including a planned reduction in base compensation growth (\$2.3 million), various ongoing programmatic reductions and savings (\$2.0 million), ongoing reductions to non-personnel budgets across the organization (\$1.4 million), and the implementation of a

new approach for personnel budgeting, resulting in ongoing budgetary savings of \$1.0 million. Overall, the City's General Fund budget shrank by 1.1% year-over-year.

Moving forward, we recognize that reanalyzing the structure of the formula used to collect property taxes is certainly a critical component of providing comprehensive tax relief to Idahoans. However, there's also a need to address the significant ongoing tax burden shift from commercial properties to residential ones. In recent years, 3% increases to the City's property tax budget has translated into residential property tax increases that often reach or exceed 10%, due to the rapid appreciation of home prices, a static homeowner's exemption, and relatively flat commercial property values. An independent review on this topic conducted by Boise State's Idaho Policy Institute found:

- If indexing of the homeowner's exemption was restored, the residential tax burden would still have increased in recent years, slowing the relative tax burden increase for residential properties - not increase the tax burden for commercial properties.
- That the increased tax burden for residential properties in Boise is caused almost wholly by price appreciation of existing houses, not due to more houses being constructed.

COMMERCIAL Additions as a % of ALL New Construction



In addition to this yearly widening shift, the proposed formula under draft DRKMF049 proposes tying the base property tax rate to the Consumer Price Index (CPI). For cities



like Boise experiencing concurrent years of growth, tying the formula to CPI would prevent the City from being able to keep up with the increased demand in city services that it is obligated to provide. Our largest cost increases year after year are public safety expenses for police, fire and EMT – critical services that ensure our community members are kept safe and healthy, especially in challenging times like we find ourselves in during this global health pandemic. Yet, the yearly costs for providing these instrumental services increases beyond what CPI might provide in any fiscal year. Additional examples of cost increases exceeding CPI include:

- Health care costs have increased at levels in excess of CPI, with additional increases in future years anticipated;
- Legislative changes over the last five years (Firefighter Presumptive Illness Bill H554 (2016) and Post-Traumatic Stress Injury Bill S1028 (2019)) have had a significant impact on the city workers' compensation costs and insurability. The City's first four firefighter presumptive illness claims (firefighter cancer claims) are expected to cost nearly \$3.5 million. Costs are expected to escalate with additional claims expected based on national cancer rate trends;
- Software maintenance costs;
- Construction costs, such as fire stations, that have increased over 110% over the past five years and parking lot and trails maintenance costs have seen double-digit inflation;
- The price for public safety vehicles, such as Fire Pumpers and Police Patrol Vehicles are increasing at multiples of CPI (i.e., 7-8% per annum). Additionally, non-specialized vehicles, like pickup trucks for Parks & Recreation, have recently seen price growth exceed CPI.

Furthermore, the formula as proposed would have a detrimental impact to the community when it comes to Urban Renewal Districts (URDs). Presently, when an urban renewal district retires, the amount of taxable market value that has been added since the base year is treated as “new construction.” This means the local taxing districts “get back” revenue that it otherwise would have received over the years had the urban renewal district not been in place. Taxing entities plan for and depend on this revenue. Capping total property tax growth at 5% (CPI + new construction + annexation + forgone + retiring urban renewal districts) jeopardizes the ability for taxing districts to be made whole upon the retirement of an urban renewal district. The City of Boise has several urban renewal districts that will be retiring over the next decade, and the shift of property taxes from the urban renewal agency back to the City is a planned funding source for ongoing service needs within those district areas.

Additional Reform Measures

Moving forward, we believe that there are numerous ways to retool how the current property tax funding formula operates and provides across-the-board relief via the homeowner's exemption, development impact fees and restructuring use of foregone.



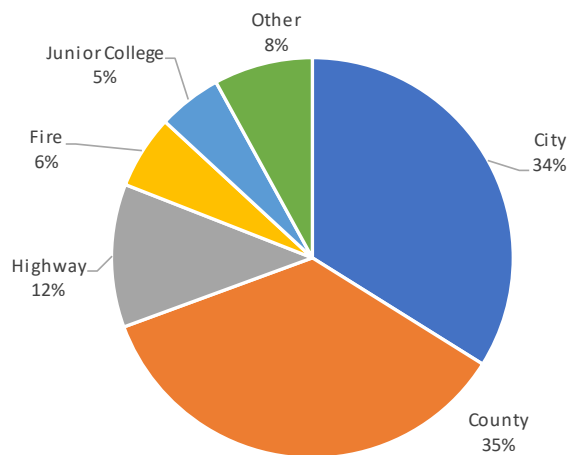
Homeowner's Exemption: The current homeowner's exemption has remained stagnant since the rate was capped during the 2016 Legislative Session, and with home prices in the Treasure Valley continuing to increase year over year, a return to an indexed exemption would provide limited, but much needed, relief to local residential taxpayers. As noted above, restoring this indexing would not move tax burdens to commercial property owners in the City of Boise, but it would slow the shift to residential property owners and simultaneously preserve local government's ability to provide the services residents and local businesses need.

Development Impact Fees: Authorizing the collection of development impact fees to be used to finance new school capital costs can decrease the burden on local governments to provide additional services as communities grow. Further, this is a way to make "growth pay for growth" and prevent longtime homeowners from footing the entire cost of construction of new schools that are required due to population growth. The City of Boise has worked closely with the Boise School District throughout the summer to better understand their development needs and strongly supports their interest in providing an additional route to finance the educational needs of our ever-growing school age population.

Foregone: As part of the 2020 statewide legislative session, a new requirement was placed on taxing entities requiring a public hearing before any additional foregone could be claimed. The City of Boise believes that additional reform measures could play a key role in addressing property tax relief. For example, limiting the foregone balance to no more than 3% of a taxing entities property tax budget, or limiting the ability to retain foregone revenue for more than four years, would

reduce the amount of foregone that is on the books statewide and provide more assurance to taxpayers that large increases to the property tax budgets are not looming. Statewide, foregone balances totaled approximately \$109 million going into Tax Year 2020 (FY 2021). As a percentage of the maximum base property taxes going into Tax Year 2020, foregone balances equaled approximately 7.4%. Limiting local taxing entities ability to preserve foregone balances could result in meaningful property tax relief at the local level.

Statewide foregone balances going into FY 2021: \$109 million



New Construction Formula: The City of Boise maintains that the ability to realize the full value of new construction is important, especially in a city growing the way that Boise is.



This new revenue source represents “growth paying for growth” and enables the City to keep up with increasing service demands associated with a growing population base. For several years in a row the City has added to the police, fire, and parks/recreation budgets with new construction revenue being the funding source for these additions. With that said, there is an opportunity to reduce the property tax budgets through an adjustment to the formula. The City of Boise proposes adjusting the new construction formula to be as follows:

*Total assessed value of new construction * the lower of the prior year levy rate or the calculated levy rate for the upcoming fiscal year*

When property values rise, as they have consistently in recent years, it places downward pressure on the levy rate. Consequently, when property taxes associated with new construction are calculated during these periods, they are calculated using a higher levy rate than would otherwise be applied. When property values are decreasing, it creates upward pressure on the levy rate. By using the lower of the two levy rates, downward pressure would be applied on the growth formula, but local taxing entities would not lose this important revenue stream.

Additional public input on property tax growth: The City of Boise would support requiring additional public input before year over year property tax growth exceeds 5%. Specifically, the City of Boise would support a requirement that taxing districts hold a public hearing (separate from the annual budget public hearing) before increases exceeding 5% are approved. This public hearing would require taxing districts to specifically justify how the additional property taxes would be utilized and provide an opportunity for residents to voice their support/disapproval.

Conclusion

While the conversation surrounding meaningful property tax relief for residential homeowners engages multiple factors at the state, county and municipal level, we remain committed to being a part of the solution. We welcome any additional conversations or questions you may have regarding our proposed recommended policy changes and how they could be implemented at the local level. We thank you for your service in addressing this issue on behalf of Boise taxpayers and look forward to the remaining interim committee discussions.

