

MEMO FROM THE MAYOR

SUBJECT: The Autopsy and Anatomy of Idaho Property Taxes, Part III (Final)

Does History Repeat Itself, Or Just Rhyme?

This is the last in a series of pieces covering property taxes as they apply to cities from a historical perspective. Space does not allow a discussion about the use of property taxes in the myriad of other separate taxing districts. Nor, does it allow a general discussion about property taxes as they relate to bonds. Those are separate and special issues.

As seen in Parts I and II, property taxes constituted a major source of state and local funding during early statehood. As the Idaho Constitution provides in Art. VII, Sec.2, “The legislature shall provide such revenue as may be needful, by levying a tax by valuation, so that every person or corporation shall pay a tax in proportion to the value of his, her, or its property...”

C. Ben Ross and the New Deal in Idaho, springing from a doctoral dissertation by Michael Malone, University of Washington Press (1970), gives a fascinating account of FDR’s New Deal bust relating to Idaho and the West. It centered on the problems Governor Ross faced with the generally unpopular notion of taxes during the Great Depression. Jim Powell’s *FDR’s Folly, How Roosevelt and His New Deal Prolonged the Great Depression*, Crown Forum (2003) and Burton Folsom, Jr.’s *New Deal or Raw Deal, How FDR’s Economic Legacy Has Damaged America*, Threshold Editions (Simon and Schuster) (2008) echo Malone’s conclusions, only on a larger, national scale.

The Federal Government Becomes the Primary Care Giver Contrary to Design

As Malone noted in his book’s introduction at page xviii, “The New Deal...marked a revolution in federal-state relations and began that tremendous expansion of federal authority into every aspect of American life which so differentiates the new from old America.” Now, there’s a mouthful.

So, what did America get for this explosion of federalism? Let’s check with Treasury Secretary Henry Morgenthau Jr.’s diary. He’s FDR’s leading expert on Depression economics: “We have never made good on our promises.... I say after eight years of this Administration [written in 1939] we have just as much unemployment as when we started...and an enormous amount of debt to boot!” (Folsom, at page 2.)

Imagine that. An insider saying out loud what real economists and historians have been

opining for some time. The US president often chosen by presidential historians as the greatest of the twentieth century—if not all time—really didn't get it done as advertised. Too bad educators on the whole don't give a more balanced view. Not knowing history—meaning what really happened and not the narrative—can have dire consequences for any country.

Brother, Can You Spare Some Property Tax Relief?

The first Idaho attempt at property tax relief occurred in 1931. The legislature passed a state income tax in March of that year during a special session. Its purpose centered on reducing the property tax levy by the amount of the revenue collected from the income tax. So, again, a zero-sum paradigm.

Although a constitutional amendment to allow Idaho's income tax failed in 1932 (the legislature having put the cart before the horse) such after-the-fact "cure" proved unnecessary. A unanimous Idaho Supreme Court upheld the constitutionality of the state income tax scheme in *Diefendorf v. Gallet* (1932). In 51 Idaho at 625, the court wrote, "The tax sought to be imposed by this act is a graduated impost upon the annual net income received from all sources by the taxpayer..."; the court having already established that while income may be a form of property, the income tax scheme did not constitute a tax on "property" as we commonly view property, because the legislature said so.

Nevertheless, although the income tax was designed to reduce property tax levy amounts, it was never dedicated to local government. The state got the full benefit of the take. Cities, then, were not beneficiaries. Still, the scheme comprised Governor Ross's attempt to placate the demands of Washington D.C., to increase Idaho's matching funds for its federal relief money—but even with the Lion of the West, Borah himself, stalking the Senate Chamber—Washington never seemed to understand what an agrarian West needed for relief in contrast to a manufacturing Eastern Seaboard. It needed stable farm prices for its commodities. There were plenty of laborers, provided farmers could grow money-making crops.

Sadly, Idaho's scheme was not enough, and although the Democrats controlled the governor's office and both houses of the legislature, those Democrats were ranchers and farmers. They'd had enough of taxes and foreclosures for sure. In 1935, Governor Ross proposed a two-percent sales tax, but the legislature balked. So, Ross shut down the state relief agencies, which dumped 80,000 needy Idahoans on local communities. After all, he had to save money.

The legislature, then, quickly passed the two-percent measure, bringing in almost \$3.5 million through 1936. Nevertheless, in November of that year, the Idaho voters, by referendum, “vetoed” the sales tax, and it remained radioactive for thirty years until 1966 when another referendum approved a sales tax with a 61% “super majority”—though it meant the end of Republican Governor Robert Smylie’s tenure.

Clearly, Idaho has had a love-hate (or to be more accurate, mostly hate) relationship with property taxes. Attempted relief from the repeal of property taxes on business inventory, to the painful reappraisals of 1975-76 in Ada County, resulting in criminal charges against its Assessor, to the California-influenced One-Per Cent initiative of 1978 that did not stay at one-per cent because it was a voter-driven initiative, which means it resulted in a law the legislature could amend or even repeal (only the legislature can put forth a constitutional amendment to the voters)—in all of these attempts—property taxes in Idaho have possessed a checkered, politically destructive, and clearly frustrating past, not to mention the present and future.

Nevertheless, residents of Emmett can rest assured that as long as this administration is in place, the city will continue to keep its slice of property tax levies among the lowest in the state, leveraging every tax dollar we receive to the fullest extent practicable. You deserve no less.