MEMO FROM THE MAYOR

SUBJECT: The Autopsy and Anatomy of Idaho Property Taxes, Part II

Property Taxes Protect Persons and Property in Idaho Cities

June's Memo informed us that Emmett sits within the top three of the lowest property-tax levy rates for "urban areas" in Idaho. It also noted that the two "urban areas" beating us—Coeur d' Alene/Post Falls and Sun Valley/Hailey areas—do so because their commercial and residential assessed values come in much higher than ours.

June's Memo also established that the maximum increase in *ad valorem* funding any Idaho city can legally receive in a succeeding budget year, caps out at three percent; provided, of course, the new assessment for the ensuing fiscal year supports such an increase. In times of significant recession and/or deflation of the real estate market, 2007-08 serves as an example, the three percent "bump" may not be there at all. Indeed, mathematically, such contraction in the economy could very well result in a three percent reduction in *ad valorem* funding!

We also learned that recently, the legislature reduced a city's take of the new build/newly annexed property category in *ad valorem* values, such values not making the tax rolls in time. The legislature reduced this funding from one-hundred percent, to ninety percent of assessed value. Historically, the one-hundred percent increase amounted to around $50,000, give or take, on an annual basis for Emmett. Due to an increase in new builds/annexation, Emmett received about the same last year as in previous one-hundred percent years.

Understandably, property taxes receive universal scorn from politicians to property owners. As a matter of fact, this writer is not a huge fan of them, either, and wishes they could go away—except for two very important factors. "Property taxes" for cities, at least, fund essential services—namely, police and fire protection. In other words, property taxes protect property.

Hence, if such taxes go away, what substitutes for them—which seems like a zero-sum equation in the long run—though begging the question, how do we protect the safety of residents and their property without property taxes? Do we increase other taxes, such as sales or income—or simply reduce the basic services we provide now? The one-size-fixes-all advocates who have never held a municipal office always have the "easy" solution. Yet, when penciled out, all their solution means is that smaller cities, like Emmett, will go from adequate and nominally sustainable services to below standard and unsustainable services absent something filling the vacuum of no *ad valorem* funding. Accordingly, the zero-sum paradigm.

Property Taxes Have Always Been with Us

Once again, thanks to the scholarship of Justin Ruen, Policy Analyst extraordinaire for the Association of Idaho Cities, the remainder of this memo will establish that *ad valorem* taxes are what funded Idaho's government. As Mr. Ruen notes in his leadership training curriculum, from the earliest stages of our territorial government, and continuing into statehood, property taxes funded our government. However, just as now, certain exemptions were granted: land and buildings owned by federal, state, county or city government; public hospitals and charitable institutions; churches; benevolent and charitable societies, and cemeteries.

However, although *ad valorem* taxes constituted the primary source of revenue for state and local governments, it did not constitute the exclusive source. The Idaho Territory had a poll tax for each adult male, splitting this revenue equally among the territorial and several county governments. Mine receipt taxes, however, split differently—40 percent to the territory and 60 percent to the counties. In addition, licensing taxes hit professionals and businesses: physicians, dentists, attorneys, billiard parlors, bowling alleys, theaters, pawnbrokers, banks, and dealers in wines and spirits.

Indeed, it was such licensing taxes that the Idaho Supreme Court adopted the Jeffersonian principle of why people incorporate cities in the first place. As the February Memo pointed out when exploring the fundamentals of municipal law in this state, back in 1891, a disgruntled merchant of cigars and spiritous liquors sued what he called the "Inhabitants of the Town of Pocatello". There, the Idaho Supreme Court noted that city governments exist for "the protection of the lives and property of people in densely populated districts." Hence, the merchant of spirits and cigars had to pay $100 per month to the city, which seems like quite a chunk for the 1890s, whether he liked the notion or not, at least according to the court, and the decision still stands 132 years later.

Interestingly, Idaho had a special *ad valorem* levy for county roads on the books from 1901 to 1911 which could be paid in one of two ways: cash or the tax payer doing work. However, from 1911 forward, the state required cash. I suspect the reason was akin to why Marxism never seems to work out: the quality of "work" lacks when specific metrics to satisfy the requirement go missing.

In the third and final installment, we will visit the Great Depression and the first Property Tax Relief Act of 1931, C. Ben Ross, the Idaho Governor during that tough period, and the One-Percent Initiative of 1978 and its progeny. Stay Tuned.