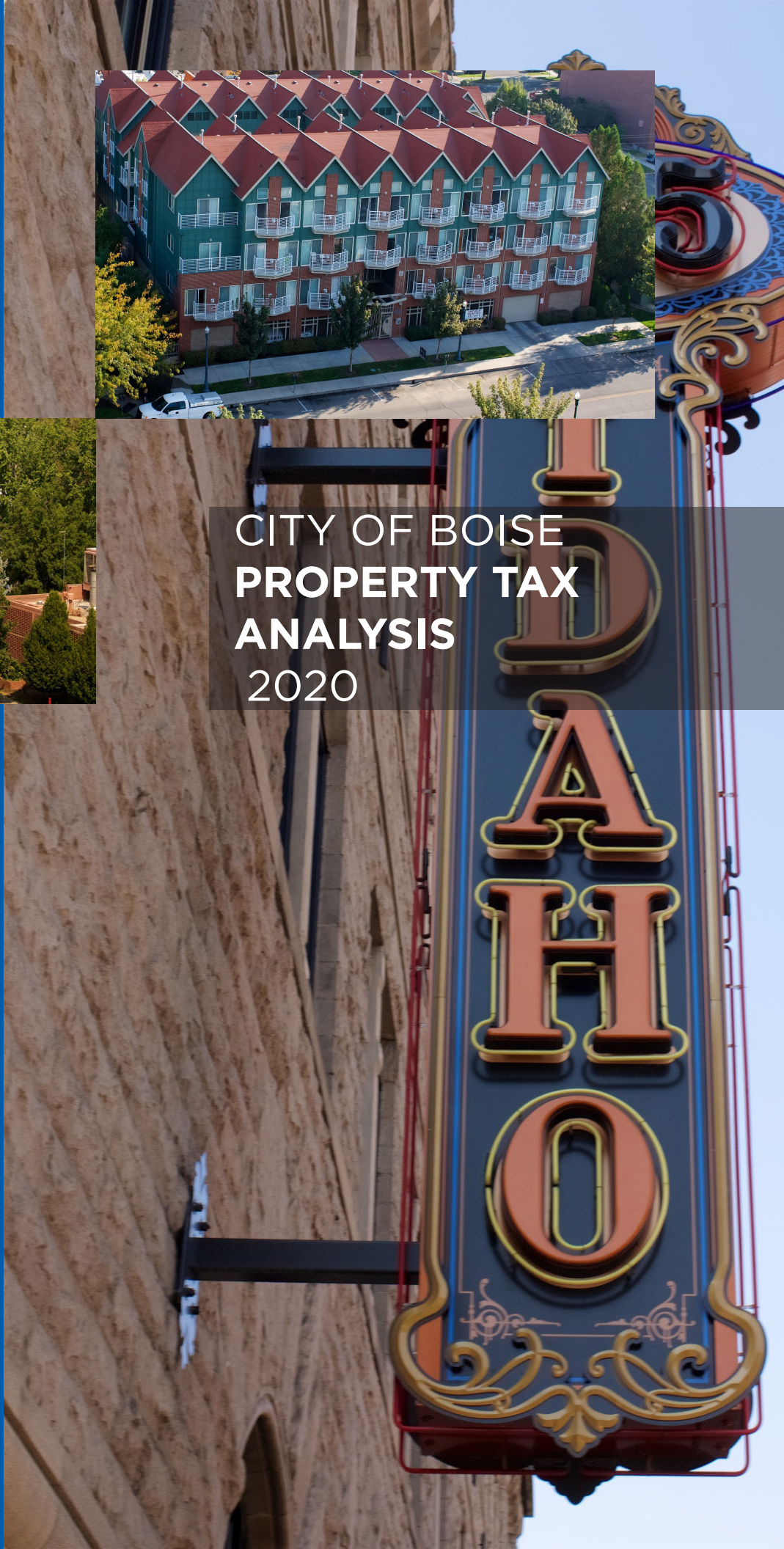




CITY OF BOISE
**PROPERTY TAX
ANALYSIS**
2020



BOISE STATE UNIVERSITY
IDAHO POLICY INSTITUTE

CITY OF BOISE PROPERTY TAX ANALYSIS

EXECUTIVE SUMMARY

Property taxes fund many of the City of Boise's services and amenities, including police, fire protection, parks and libraries. Other services, such as the airport, water renewal, and solid waste management, are funded through other means. Over the last decade, residential property values increased dramatically, increasing homeowners' share of the property tax burden while the share for commercial property owners has fallen. The shifting tax burden is a concern of both policy makers and the public.

The city partnered with the Idaho Policy Institute (IPI) to conduct a third-party analysis to better understand the significance of property taxes as a revenue source for the city and address two research questions:

- 1) What are the drivers of property tax growth in Boise?**
- 2) What policy decisions can impact commercial and residential tax burden?**

Property taxes are an essential revenue source for the city, especially given the limited tax options for Idaho localities. The property tax burdens borne by Idaho residents remains nationally competitive. Residential properties contributed disproportionately more to property tax growth than commercial, as the former's values have appreciated at a faster rate and substantially outnumber the latter.

This study finds that the major drivers of property tax growth for an individual property owner is a combination of what proportion of the city's total taxable value their property represents, budget growth, and the homeowner's exemption interacting with one another. Among these, the change in a property's share of total taxable value produces the greatest effect. When a property's value increases faster than other properties (capturing a higher proportion of the total value within the city), its owner generally pays a larger share of property taxes. In regards to what type of policy decisions can impact commercial and residential tax burden, while many tools are available—such as assessment ratios, exemptions, and so on—outside of the city budget, most alternatives will require policy changes at the state level.



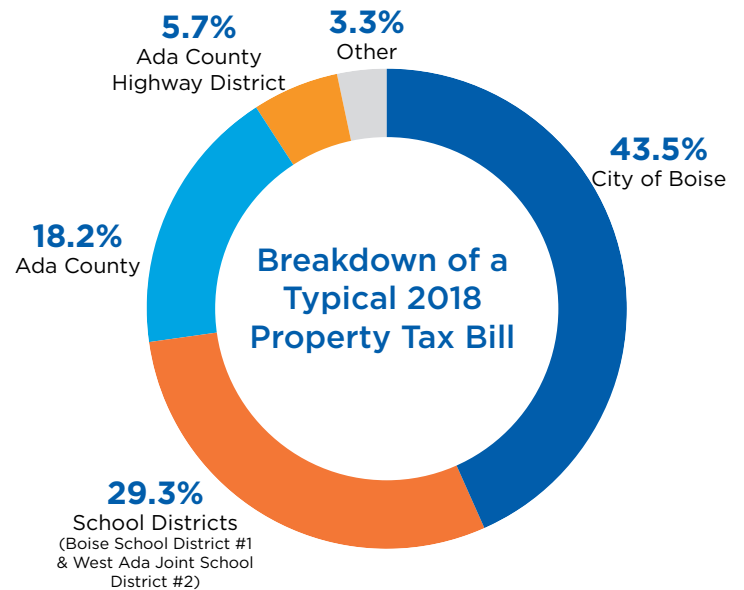
PROPERTY TAX REVENUE

A typical property in Boise falls within several overlapping taxing jurisdictions, each of which receives some portion of the total property taxes paid (See Figure 1).

In 2018, the typical property owner in the city saw the majority of their taxes paid to four jurisdictions: City of Boise, their School District, Ada County, and the Ada County Highway District. The remaining portion of taxes was distributed among various smaller taxing jurisdictions, such as mosquito abatement districts, cemetery districts, emergency medical districts, and others. **IPI's analysis focused exclusively upon the portion of property taxes paid to the City.**

Property taxes are a critical revenue source for Boise to fund existing essential public services—such as police, fire, or parks— as well as meet the increasing demand for those services spurred by urban growth. These services are typically not able to generate enough revenue to offset their cost. Impact fees from new development can only be used to cover capital costs (e.g., construction of a new police station) but cannot be used for ongoing operation costs (e.g., police patrols in the new area). As virtually the only local general tax in Idaho, property taxes are regarded as payment for the ongoing cost of these services. Since 2009, property taxes have accounted for over 60% of the city's general fund, underscoring its importance.

FIGURE 1: BREAKDOWN OF PROPERTY TAXES PAID IN 2018



Note: “Other” includes all other taxing districts – such as mosquito abatement, sewer, and cemetery districts – that typically constitute <1% of an overall tax bill.

CALCULATION OF PROPERTY TAX PAYMENTS

Property taxes are generally determined through the following formulas:

FORMULA 1:

$$\frac{\text{General Fund Property Tax Amount}}{\text{Total Taxable Market Value}} = \text{Levy Rate}$$

FORMULA 2:

$$\text{Levy Rate} \times \text{Taxable Value of Individual Property} = \text{Property Tax Billed to the Owner}$$

The numerator (general fund property tax amount) of Formula 1 is essentially the property

tax revenue set by the city during its annual budgeting process. Its growth is subject to state statutory limits, but generally can be increased up to 3% over the prior year's base in addition to tax collections from newly constructed or annexed properties within the city. Alternatively, the denominator (total taxable market value) is the sum of the taxable value of each individual property located in the city. Once the levy rate is calculated, the rate is applied to the taxable value of an individual property (Formula 2), producing the total amount of property taxes owed by the owner.

The amount of property taxes one owes is related to both the taxable value of the property and its proportionate share of the total taxable value within the taxing district. For instance, if each property owner possessed an equal share of the total taxable value within the city, then under the same levy rate each would pay an equal portion of property taxes. However, that is not the case as individual properties vary in taxable value. On average, in 2018 a single residential home constitutes 0.0009% of all taxable value in Boise. Small changes in a property's proportion of the total taxable value within a jurisdiction can greatly influence a property owners taxes. In a given year we are more likely to see some properties increase in value while others decrease. Even if these changes perfectly offset each other to keep the overall value—and thus the levy rate—the same, those who saw larger increases in taxable value will pay proportionally more in property taxes because their share of the total taxable value in the city also increased.

TAXABLE ASSESSED VALUE

Over the past several years, the total assessed value of both residential and commercial properties has grown, but at markedly different rates. From 2012 to 2018, residential property values increased 86.2% overall, at an average rate of 10.9% each year. During the same period, commercial properties increased 54.3% overall, or an average rate of 7.6% annually. Greater value increases on the residential side have resulted in shifting a larger property tax burden onto residential property owners and away from commercial property owners.

The change in property values, for both commercial and residential properties, varies across regions within Boise, as illustrated by Table 1. In 2018, the median growth rate of commercial properties was roughly half the rate of residential property growth.

FIGURE 2: TOTAL ASSESSED VALUE BY TYPE

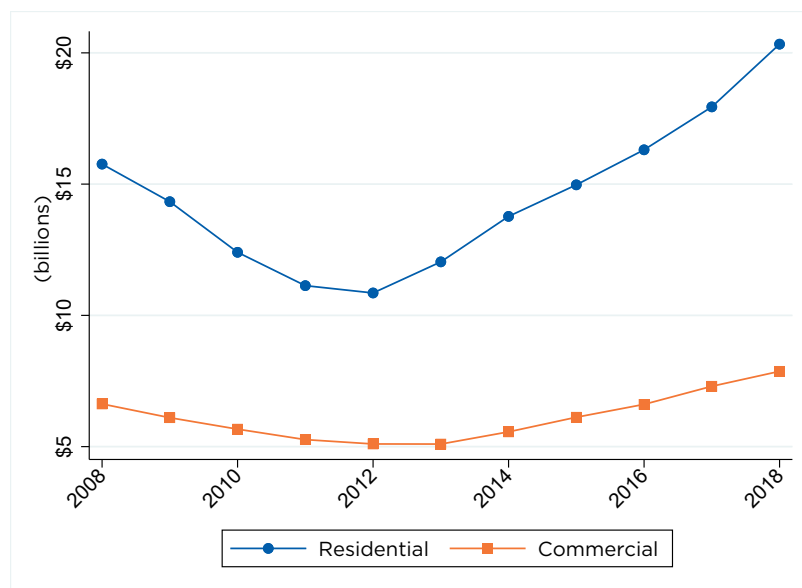


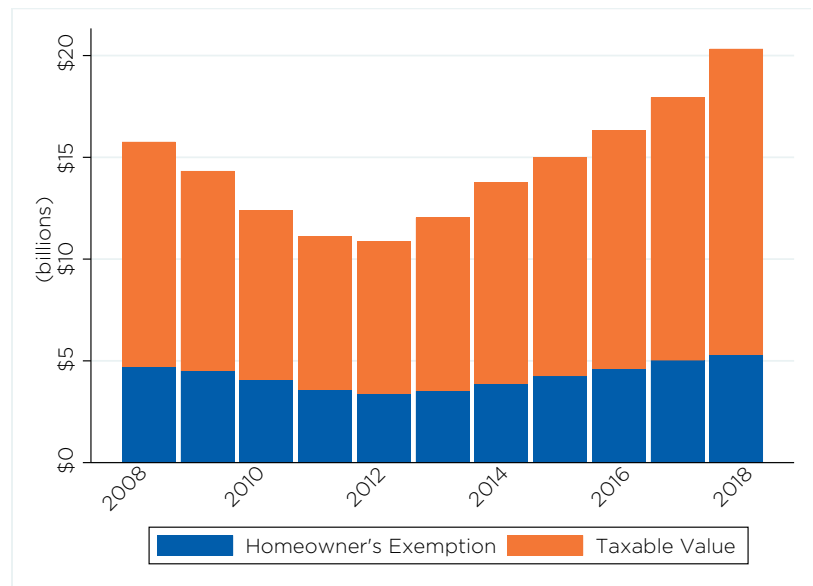
TABLE 1: ASSESSED VALUE - MEDIAN 2017 TO 2018 GROWTH RATE BY REGION

	Downtown/ North End	Northwest	Southwest	West	Southeast	East	Total
Residential	10.0%	12.9%	11.7%	12.1%	14.0%	11.8%	12.4%
Commercial	5.1%	5.9%	5.3%	5.4%	5.1%	4.1%	5.1%

HOMEOWNERS EXEMPTION

Not all residential valuation is taxed in Idaho. Under the state's homeowner's exemption, either 50% of a home's assessed value or \$100,000 (whichever is lower) is not subject to property taxes. Subtracting all homeowners' exemptions¹ from assessed values produces the total taxable value in the city (which, once again, is the denominator in the levy rate formula). In 2008, 62.4% of Boise's taxable value was residential, while 37.6% was commercial. In 2018, nearly two-thirds (65.6%) of Boise's total taxable value was residential, compared to 34.4% commercial.

FIGURE 4: HOMEOWNER'S EXEMPTION VS. TAXABLE VALUE



From 2012 to 2018, the total taxable value of residential properties in Boise has grown by 100.5%, more than doubling from \$7.4 billion to \$15.0

billion. During the same period, the proportion of value exempt from taxation has grown only 55.0%, from \$3.4 billion to \$5.3 billion. By contrast, as noted in the previous section, the taxable value of commercial properties grew by 54.3% since 2012.

TAX GROWTH ON INDIVIDUAL PROPERTIES

In order to answer what drives property tax growth in Boise, it is useful to keep in mind these various elements and their relationship to the levy rate formula. Collectively, the 3% growth, new construction, and annexation are the amount by which the numerator increases each year. The homeowner's exemption, conversely, affects how much of the total assessed valuation is taxable—or the denominator of the levy rate formula. Finally, an individual property's share of the total taxable value within the city is, in essence, how much of the denominator they are directly responsible for. Taking each of these elements into consideration, IPI is able to estimate their relative effect on the amount of property taxes a typical homeowner pays to the city.

Since 2012, the city has increased its property tax revenue (the numerator of the levy rate) by taking 3% base growth each year, as well as an average 1.6% in new construction each year, in addition to newly annexed properties. Broadly speaking, the combination of 3% growth, new construction, and annexation constitute the portion of property taxes that jurisdictions have direct control over each year during the budgeting process. The taxable valuation, however, is not within control of the city.

IPI's statistical analysis² indicates that for every \$1,000 the city's property tax revenue increases, taxes paid by a typical property owner in Boise will increase by \$0.13, assuming their homeowner's exemption and proportionate share of taxable value does not change. Conversely, for every \$1,000 the value of their homeowner's exemption increases, the

property taxes paid by a typical homeowner will decrease by \$2 (again, assuming nothing else changes). Finally, as an individual property's proportionate share of the total taxable value in the city increases by 0.0001 percentage point, the property taxes paid by a typical property owner will increase by \$80, assuming city revenue and their homeowner's exemption does not change. Each element exerts upward or downward pressure on the typical owner's property taxes and their interaction ultimately determines the final tax bill. Residential and commercial case studies looking at growth from 2017 to 2018, when the city's total property tax budget increased 5.8% (3% base increase plus 2.8% in new construction/annexation),³ help illustrate these interactions.⁴

CASE STUDIES

TABLE 2: CASE STUDY 2017 TO 2018 GROWTH RATES

	Residential #1	Residential #2	Commercial #1	Commercial #2
Assessed Value	+19.6%	+14.0%	+11.4%	+4.9%
Homeowner's Exemption	0%	+14.0%	N/A	N/A
Share of Taxable Value	+18.8%	+0.7%	-1.7%	-7.4%
City of Boise Property Tax	+24.8%	+5.8%	+3.3%	-7.2%

The first residential case study is a 1,025 sq. ft. home located in southeast Boise and built in 1951. From 2017 to 2018, while its assessed value grew substantially, the property was already at the homeowner's exemption cap of \$100,000. Thus the increase in assessed value was all taxable and no downward pressure was applied to their property taxes. Accordingly, the home's proportionate share of taxable value in the city also went up. *Increases in assessed value and the proportionate share of taxable value exerting upward pressure on property taxes, coupled with no additional downward pressure from the homeowner's exemption, saw this case's property taxes increase by 24.8% in 2018, far greater than the city's overall budget increase.*

The second residential case study is a 1,822 sq. ft. home in northwest Boise that was built in 1975. While in 2018 its assessed value also increased, since its assessed value is under \$200,000, not all of that increase was taxable. In both years, the homeowner's exemption is half of its assessed value, so downward pressure was still applied. As such, its proportionate share of taxable value within the city only increased by a modest amount. *With the upward pressure of increases in assessed value and share of taxable value blunted somewhat by the downward pressure of an increase in the homeowner's exemption value, the amount of property taxes paid to the city only increased by 5.8%.*

Turning attention to commercial properties, case one is a 17,400 sq. ft. hotel located in southeast Boise and built in 1981. In 2018, its assessed value increased, but as a commercial property, the homeowner's exemption is not applicable. While its value increased, however, its proportionate share of total taxable value actually decreased. *The upward pressure of an assessed value increase was partially counteracted by the downward pressure of a decrease in share of taxable value.* As a result, the amount of property taxes paid to the city only increased by 3.3%.

The second commercial case study is a 5,788 sq. ft. office building in downtown Boise built in 1950. Like each prior case study, this property's assessed value increased in 2018, although once again, as a commercial property the homeowner's exemption did not apply. However, the property's proportionate share of total taxable value decreased. *The upward pressure of an assessed value increase was more than offset by a substantial decrease in share of the city's total taxable value.* As a result, property taxes paid to the city actually decreased by 7.2% in 2018.

Each case serves to illustrate the various ways that assessed value, the homeowner's exemption, and proportionate share of the city's taxable value can interact to affect property taxes. As some property values increase faster than others, they constitute a higher proportion of the total value within the city. This can result in owners paying a larger share of property taxes, even if taxing jurisdictions do not increase their property taxes in a given year.

PROPERTY TAX RELIEF

There are several tools and policy options available that can influence property taxes. Tools that have been used in Idaho or other states for property tax burden relief include the homeowner's exemption, the circuit breaker program (where the state pays a portion of an individual's property tax bill), relative assessment ratios and levy rates, alternative revenue streams (e.g., local sales tax), and each jurisdiction's decision on how much property tax revenue to budget in a given year. With the exception of budget setting, changes to each of these relief tools would require action at the state-level.

Under the state's current **homeowner's exemption** policy, either half of a property's assessed value or \$100,000, whichever amount is lower, is exempt from property taxes. In Boise, the median home price is currently over \$300,000, implying that the maximum exemption for most homes is capped at \$100,000. Prior to 2017, the maximum homeowner's exemption amount would automatically change according to changes in the federal Home Price Index for Idaho. One alternative would be to return from the fixed cap to an indexed exemption. This would reduce the taxable value more than the current cap does.

Another alternative is revision of the **circuit breaker program**, which is a focused approach that targets property tax relief to vulnerable populations. To be eligible for the program in 2018, homeowners must have an income of \$30,450 or less. They must also belong to one of the following categories: adults over 65 years of age, widow(er)s, disabled individuals, parentless children, or veterans. If these criteria are met, the state will pay a portion of the individual's property tax bill, thereby keeping local governments whole. Individuals are required to apply for the credit annually. Under state statute, the maximum amount property taxes can be reduced under the program is \$1,320, a dollar amount that was last adjusted in 2006.

Several states treat residential and commercial properties differently by applying different levy rates or different assessment ratios to each class of property, which Table 3 summarizes. Under **relative levy rates**, a lower tax rate is typically applied to residential properties, whereas a higher tax rate is applied on commercial properties. This tool is rare among Idaho's peer states, with the most high-profile national case being Washington, D.C., which charges \$0.85 per \$100 of assessed value for residential properties. For commercial properties, the rate nearly doubles to \$1.65 per \$100 on the first \$3 million of

TABLE 3: PROPERTY TAX CLASSIFICATION BY IDAHO PEER STATES

State	Does State Classify Properties	Number of Classes	Different Assessment Ratios	Different Levy Rates
Arizona	Yes	11	Yes	No
Colorado	Yes	4	Yes	No
Idaho	No	0	No	No
Montana	Yes	17	Yes	No
Nevada	No	0	No	No
North Dakota	Yes	6	Yes	No
Oregon	No	0	No	No
South Dakota (School Districts)	Yes	3	No	Yes
South Dakota (Non-Education)	No	0	No	No
Utah	Yes	2	Yes	No
Washington	No	0	No	No
Wyoming	Yes	3	Yes	No

Source: Significant Features of the Property Tax. <https://www.lincolnst.edu/research-data/data-toolkits/significant-features-property-tax/access-property-tax-database/property-tax-classification> Lincoln Institute of Land Policy and George Washington Institute of Public Policy. (Property Tax Classification; accessed: 01/10/2020 05:38:39 PM)

assessed value. For commercial properties valued over \$3 million, the rate increases even higher, becoming \$1.85 per \$100 on the portion over that threshold.

Relative assessment ratios work similarly. Some states, including six of those that surround Idaho,⁵ set different assessment ratios according to property types. Typically, a lower percentage of assessed value is subject to property taxation for residential properties, thereby reducing residential taxable values, whereas a higher percentage of assessed value is subject to taxation for commercial properties. For example, in Utah, 55% of residential value is subject to property taxes, while 100% of commercial value is taxed. This preferential treatment for homes reduces the amount of residential assessed value that is taxed.

CONCLUSION

In conclusion, this study finds that the major drivers of property tax growth for an individual property owner is a combination of what proportion of the city's total taxable value their property represents, budget growth, and the homeowner's exemption interacting with each another. Among these, the change in a property's share of total taxable value produces the greatest effect. When a property's value increases faster than other properties (capturing a higher proportion of the total value within the city), its owner generally pays a larger share of property taxes. As it is tied to the distribution of valuation, this shift and the resulting tax increase can happen even if taxing jurisdictions do not increase their property taxes in a given year.

In regards to what type of policy decisions can impact commercial and residential tax burden, while many tools are available—such as assessment ratios, exemptions, and so on—outside of the city budget, most alternatives will require policy changes at the state level.

ENDNOTES

- 1 While other exemptions exist for properties, the homeowner's exemption is the most impactful and was the focus of IPI's analysis.
- 2 Estimates were calculated using a fixed-effects time-series regression model of parcel-level data from 2012 to 2018. The model contained 585,862 observations for 90,359 individual parcels.
- 3 The Foothills Special Levy in 2017 and 2018 was excluded from this calculation.
- 4 Case studies were randomly selected using statistical software from a pool of parcels that experienced typical assessed value growth rates.
- 5 Arizona, Colorado, Montana, North Dakota, Utah, and Wyoming all use different assessment ratios to varying degrees.

This report was prepared by Idaho Policy Institute at Boise State University
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