



Adaweb

Ada County budgeteers debate the hard-hit property-tax funding for ambulance services. Pictured: Ada County paramedics.

Government Struggles TO COPE

by David Eberle with Brian Laurent

The effects of the recession drag on in the halls of government, long after the headlines have claimed the worse is over for Ada County. Local government remains dependent on revenue from property taxes. In Ada County, hard hit by the housing crisis, the fall of revenue from construction fees and property taxes leaves governments struggling to cope.

The consequence of this recession has been more significant in Ada County than in most other areas in the country. What does this mean for the residents of the valley? In some ways, the conservative bent of Ada County citizens has kept city services at a fairly modest level and softened the impact on the valley. However, the downside is that when cities' budgets are cut, there will be no capacity to make the infrastructure repairs needed to maintain current services or build new infrastructure to serve the population growth that will inevitably return.



A Boise "small government" tax protester marches alongside parents in 2009.

Without good transportation access, adequate parks or sufficient public safety staff, top businesses will bypass the valley and once again residents will be looking at jobs that pay below the national average, thus perpetuating the low wage base, the low level of services, an inadequate infrastructure and more importantly, a low tax base. This low tax base translates into

low support for education and needed infrastructure, thus perpetuating the cycle of not living up to the valley's potential.

The combined federal, state and local governments in Ada County are the largest employment sector in the county. During the first quarter of 2011, government employed 29,864 people in Ada County, the highest of all industry sectors. In Fiscal Year 2010, general fund government expenditures in Ada County and the six individual municipalities reached approximately \$378 million. At the end of FY 2011, that number fell by 3 percent at a time when the economy as a whole started to grow. This decline translated to 178 fewer employed people in the valley making \$50,000 with full benefits. When governments have to cut services, it slows down the economy. The irony is that this 3 percent reduction, likely less than \$10 out-of-pocket a year to the average county resident, disrupts 178 families and causes ripple effects into the greater economy. It impacts all the businesses that serve that laid off employee. But the economic impact of cuts to local government budgets only occurs one to two years after an economic recession, so a reduction in government services will prolong any recession and retard any recovery or even create a double-dip recession. Is this the future for Ada County? How local elected officials respond to the anti-government sentiment playing out across the county will determine whether we will follow the national recovery or lag behind. Today the experts' best guess is that the valley will avoid the double dip, but not see significant job expansion for several more years as the education and local and state government sectors continue to cut employees.

Ada County residents have long distrusted government while depending on government largess. They have protested government beginning with the Boise chartering protest in the 1860s and have accepted federal monies to support their lifestyle since 1915 when the U.S. Reclamation Service dedicated Arrowrock Dam. The national subsidy of our valley and how we collect local government tax revenue cloud the picture of whether we will feel the effects of the recession long after the national economy recovers.

Local governments receive revenues from a number of sources, the primary ones being the property tax, sales tax, liquor and utility taxes and economic development fees. Total revenues fell but property tax collections did increase in some jurisdictions (Boise was the only local government (out of the six cities, Ada County and ACHD) to take any of the allowed 3 percent. They took 1.5 percent.) It is no surprise that development fees and sales taxes fell because these are directly tied to economic activity and the recession. The reasons for drops in liquor and utility taxes are a little more

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complicated. However, it is clear that franchise taxes on cable TV fell most significantly because people dropped cable service.

The property tax is the largest and most controversial revenue source for local governments. Most residents dislike this tax, partly because it is misunderstood and partly because they see the tax bill in one lump sum each year. If residents saw how much they paid in sales tax or excise taxes in one lump sum they may be equally upset. It is misunderstood because the nexus between property tax and local services is not a close relationship, so people feel like they are not getting fair value for their tax. It is also misunderstood because of who assesses the property—the county assessor—and who sets the tax revenue amount—the cities. This often leads to confusion. Finally, the total tax on a property comes from multiple jurisdictions. If a resident lives in a city, there will be a city levy, a county levy, a school district levy and a levy from other special taxing districts such as the Ada County Highway District and the Mosquito Abatement District. Thus, taxpayers feel general disgust when one taxing district claims that it has lowered its levy and the taxpayers see their bill going up.

Property taxes are set when local governments take the value of last year's budget plus up to 3 percent of that budget at their discretion and divide this amount by last year's assessed property value to come up with the new property tax levy. We know from algebra that when the denominator of a fraction goes down the size of the fraction goes up. So if property values fall, the property tax levy will rise even if local governments do not take the optional 3 percent increase in the prior year's budget. It is this phenomenon that causes people to think that tax revenues are going up because their tax levy is going up. And, if their house holds better value than their neighbors, then their taxes will rise. There is one final piece of information required to grasp the impact of this recession on local governments. State law sets the upper limit of the tax levy to be no greater than 1 percent of the assessed property value. So as property values fall and tax levies rise, there is a cap on how high local governments can raise their levies.

It is not an understatement to say property values throughout Ada County have tanked since 2007. In the last three years, property values in Ada County have fallen by about 40 percent. And in terms of actual dollar amounts, it is not surprising that Eagle homeowners have taken the largest hit; the average improved residential value there was more than \$400,000 in 2007. Since then, the value has fallen by 65 percent to slightly more than \$260,000.



Kenneth Freeman

Even revenues from seemingly recession-proof liquor sales have declined in the last four years. Pictured: full service at an empty bar in Boise's Harris Ranch subdivision.

At \$24.57 billion, the county's overall taxable market value of property is close to 2005 levels. Taxable market values in Boise and Garden City were actually lower in 2011 than in 2005. But the overall valuation in the City of Star was especially on a roller coaster. Taxable market value in the city was \$149.1 million in 2005 before nearly tripling in just two years to \$444.9 million before collapsing back to pre-2008 levels.

Local governments have had to scramble to respond to this valuation collapse just as homeowners have. All of this is happening without considering the increased costs of health care for employees, increased cost of utilities and gasoline as well as any union contracts with fire and police. The result has been the delay of major repair and maintenance of infrastructure,

Median Sale Price for a Home in Ada County

Year	2006	2007	2008	2009	2010	2011
Median Price	\$232,000	\$225,000	\$200,000	\$167,000	\$155,000	\$147,000
Percent Change		-3.02%	-11.11%	-16.50%	-7.19%	-5.16%
Cumulative		-3.02%	-14.13%	-30.63%	-37.81%	-43.0%

Source: Idaho Multiple Listing Service

cuts in staff and cuts in public safety officials. These effects will not really be felt until the economy starts growing and local governments do not have the resources to fill the positions.

It is a complicated picture from the perspective of the resident who hears governments are raising taxes when their own personal finances are tight. Yet, even though taxes may be going up, the net result is that all local governments in Ada County have experienced a decrease in total revenues and each government has responded differently given their political makeup and what revenue sources they were relying on.

Each local government reacted differently because they faced different situations. Cities relying on a continued housing boom suffered the most. Eagle and Kuna saw their new development revenues fall precipitously. The City of Eagle cut services, laid off 25 percent of its staff, cut library hours and threw itself at the mercy of the county to continue police coverage. Additionally, the City of Boise picked up the bus service to the Eagle area. As a result, the mayor resigned and the council fractured. Kuna convinced voters to float a bond for a new sewer plant that was going to be paid for by new housing development coming to the area. But the new houses weren't built and now existing residents are saddled with significant extra taxes. Today, residents who signed up are on the hook for \$11,000 per acre assessment. The homeowners who purchased small ranchettes for a rural lifestyle now find themselves owing tens of thousands of dollars. And, for farmers in the area, the sewer plant assessment exceeds the value of the land, raising the prospect of foreclosure by the debt holder and creating more chaos in the region.

Garden City, Meridian and Boise have a broader tax base and did not rely on new development to fund basic services, so their residents did not see broad cuts in services. However, the three cities have not pursued the same strategy throughout the recession. Boise has chosen to continue its



Knowles Gallery

City leaders look to rail freight service to help revive the municipal tax base.
Pictured: Union Pacific tracks along a city-owned right-of-way.



Development impact fees once funded one-fifth of the Ada County Highway District's budget. The housing crash has crippled that revenue source. Pictured: building in a Boise Valley subdivision.

capital projects, most notably two regional parks, one of which includes a new whitewater park. To fund a share of these projects, Boise has been willing to take a portion of the legal increase, 1.5 percent instead of 3 percent, in the tax base. Garden City and Meridian have decided to not take a percent increase in their budgets, meaning they are deferring maintenance and capital projects.

What does this mean for the future of Boise, Meridian and Garden City? Boise is committed to a strategy to become the most livable city in the country. This means Boise has made the commitment to both physical infrastructure and services, which go beyond the traditional public safety, police and fire, to also include a commitment to the performing arts, business incubators for emerging technology companies and economic incentives to bring interesting jobs into the city. And Boise is committed to creating a new comprehensive plan that promotes neighborhoods like Bown Crossing and 36th

Street Station. All of this takes new revenues. The city has reduced staff and held the line on wage increases to make this happen in hopes that Boise will emerge more quickly from the recession.

Meridian and Garden City have chosen a more cautious approach by pulling back on their expansion plans and keeping property tax increases at a minimum. They hope that when the economic recovery takes hold, people will choose to live and shop in Meridian and Garden City because they have a lower tax base and smaller government than Boise. This has been a successful strategy in the past. However, with increased fuel costs and delays in new road construction, this may not be as successful this time around.

Star is in an entirely different situation. The remotest community from the central city was the hardest hit in percentage terms from the loss of development-related fees and taxes. As a consequence, land use planning is in shambles. What the future holds for these smaller communities will depend on how the larger communities recover.

One of the more interesting counterintuitive correlations with the recession has been the decrease in crime. Looking back at the 2006-10 time period, there is a consistent, steady drop in the crime rate in Boise and Meridian. In 1995, the major crime rate in Ada County was more than 10,000 per 100,000 in population. The crime rate fell 21.7 percent in the following four years; there was a small uptick in 1998—in the midst of economic expansion. Between 2002 and 2009, the crime rate continued to fall, with Garden City leading the way with a 54.3 percent drop. Unfortunately this drop did not hold for Garden City, with more than 10,000 crimes reported per 100,000 residents in 2010. Reports of vandalism within Garden City doubled, and there were large increases in simple assaults, drugs/narcotics and drug equipment. Garden City's experience may be due to its much lower income population compared to the other three jurisdictions in Ada County. Boise continues to enjoy a crime holiday with lower major incidents. Altogether, Ada County's overall crime rate decreased 26.2 percent between 2006 and 2010. With a hold on filling new public safety vacancies and a cap on salaries, the question becomes: When population begins to grow again, as it will, how will the cities staff up to sustain the gains that resulted from the recession?

Perhaps the Ada County infrastructure most at risk is its road system. The Ada County Highway District, which is responsible for all the roads in the county, determined that it should not increase the property tax levy rate to show solidarity with citizens. ACHD has experienced a double whammy to its budget. The first is the local economy. Like the other taxing districts, ACHD has been impacted by the drop in housing values and in the slowdown of

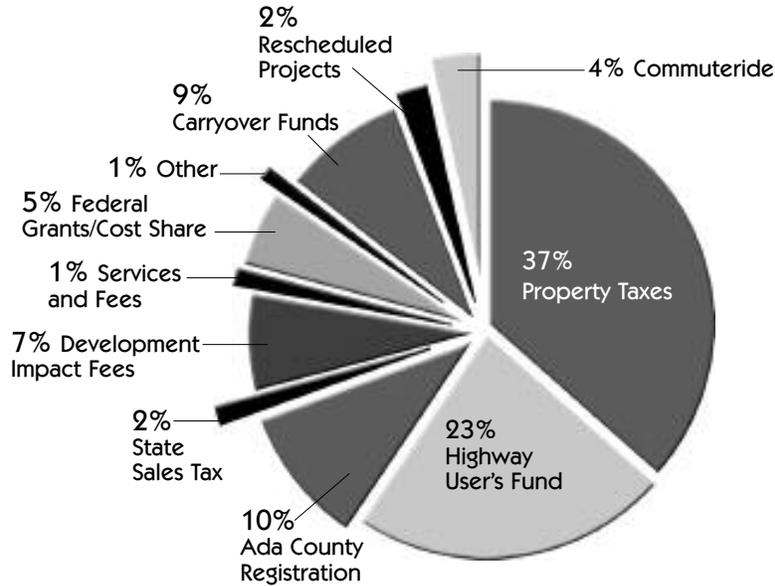
new car purchases. But more importantly, ACHD moved to developer impact fees over the last decade to pay for new infrastructure. A common refrain from boom times was that "growth should pay for itself." ACHD turned this phrase into reality by using development impact fees to ensure growth-related development. Other local governments use developer fees, but ACHD had a much greater reliance on this financing technique. Today the downside of this policy has been revealed. ACHD itself admits that these fees are an extremely unreliable source of funding over time. Impact fees decreased 67.3 percent between Fiscal Years 2007 and 2012. This has delayed many of its scheduled road rebuilds and upgrades, which will ultimately lead to a decrease in the level of service. In FY 2012, ACHD's budgeted development impact fees are just over \$6 million. This is more than two-thirds lower than the \$18.5 million seen as recently as FY 2007. These impact fees now comprise just 7 percent of ACHD's budget compared to 21.2 percent in FY 2007. ACHD's revenue future is clouded by the fact that it is dependent upon cities' land use plans and their economic recoveries. And the future is uncertain due to national trends that include higher gas prices, better fuel mileage and changes in housing preferences.

ACHD dedicated a portion of the recent tax increase on car registrations to sidewalk and safe-routes-to-school improvements. This new tax corrects a significant existing deficiency by improving safety for children who walk or ride their bikes to school. And, ACHD has received significant revenues for its Commuteride program, ACHD's service to provide an alternative to the traditional single-occupant commute. This may help promote the reduction of total autos on the road, thus reducing the need for new roads.

ACHD remains confident that the recession has not adversely impacted its ability to maintain and build new roads. According to Matt Edmond, ACHD senior transportation planner, it is difficult to attribute changes in the five-year work plan to the economic downturn. That being said, of the 55 projects listed in the 2008-12 five-year work plan, 16 have been delayed and 8 were removed; almost 50 percent of the projects have been delayed or scrapped. Five of the removals included a variety of proposed widening projects along Fairview Avenue, which is of great concern because it is a long-term corrective project to improve commuter traffic flow while reducing cuts through residential neighborhoods.

Traffic volume has fallen, perhaps in part due to the fact that the unemployed are not driving to work. What happens when recovery takes hold in the valley? Will the higher gas prices and behavioral changes result in long-term traffic reduction or will people return to old driving habits? Will projects like the Fairview transit corridor continue to be delayed?

Allocation of Funds for ACHD



The cities walk a fine line between maintaining the downsized services of today and hoping that housing values will not continue to decline. The near term outlook is that the county should be able to weather 2012 much like 2011. However, there are outside potential events that could radically change this forecast, such as the political rancor leading up to the 2012 national elections, Europe's failure to resolve its banking crisis, a potential war between Israel and Iran and a collapse in China's housing bubble.

The longer-term outlook will be much more nuanced between the cities. Which city picked the right strategy for preserving what we have and improving the quality of life in the future? Will it be Boise's strategy of staying the course on its long-term strategic plan or Meridian's pause in services to wait for an economic recovery to restart its public policy initiatives? Eagle, Kuna, Garden City and Star are completely dependent on the strength of the valley's recovery, on ACHD having funds to support new roads and on whether Americans have made a fundamental shift in what kind of housing stock and location they want.

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Boise City Police Department

In 2011, Boise police and firefighters helped the city balance its budget by foregoing a contract-scheduled cost-of-living increase.

Thus, the choices for elected officials range from populism—cutting taxes and services—to implementing strategies to beat the national average for economic recovery. The risks to elected officials who pursue the growth strategy is that there will be further layoffs if the recovery does not come soon enough and the city hits the 1 percent cap on property tax increases. The risk of following a populist strategy is that the community will lag in developing its assets, causing people to choose to locate in other areas and extending the recession for their community.

Assuming that housing values will rise slowly for years to come, one can make several observations. If other parts of the county are an example for the Boise Valley, central cities will recover more quickly than the suburbs. The further one goes out from Boise, the slower the rebound. There is some evidence that our recovery will look like the rest of the nation. Kuna is burdened with higher taxes and infrastructure that its residents will continue to pay for into the future. Star has land that will neither be developed nor farmed, thus scarring their landscape. Eagle will continue to be a partial city, with services being provided by other governments in the valley. Garden City may escape its past by virtue of its proximity to Boise and Meridian. Boise is most likely to experience economic recovery because it is the central city and also because it continues to invest in its infrastructure and has a number of amenities already built that prospective companies can see when they are deciding where to locate their next business venture.

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