



C.L. "BUTCH" OTTER

GOVERNOR

April 11, 2017

The Honorable Lawrence Denney
Secretary of State
State Capitol
Boise, ID 83702

Dear Mr. Secretary,

I hereby advise you that I have returned without my approval, disapproved and vetoed, the following House Bill, to wit:

H67aaS, aaS

within the time limited by law, the same having arrived in the Office of the Governor at the hour of 12:05 p.m. on March 31, 2017.

Every Idaho citizen should know by now that I support tax relief. In fact, I have approved about \$1 billion in tax relief since I took office in 2007. However, the costs of this particular proposal are too high and the potential for imminent financial need too great for the small amount of tax relief it would provide.

One of the hallmarks of human social development is the ability to learn not just from our own mistakes, but from the difficult experiences and hard-earned wisdom of others. That ability, beyond cold economic realities, informs my decision to veto House Bill 67.

In a meeting with Republican leaders of the Idaho House and Senate during the recently concluded legislative session, the discussion turned to the desire by members of their respective caucuses to remove the 6-percent sales tax from groceries. The leaders were concerned about the fiscal impacts of such a change, citing the trouble that Utah legislative leaders reported as a result of our neighboring state taking that action.

The advice from Utah was simple and straightforward: Don't do it. The ramifications of lifting the sales tax from food had made budgeting much more difficult with the loss of what indisputably was their most stable and consistent source of revenue for essential government operations. Taxpayers benefited almost imperceptibly while lawmakers found themselves dealing with the peaks and valleys of income tax and other financial supports that are far more susceptible to economic fluctuations.

Everyone benefits from some kind of government service. Everyone eats. The income derived from a tax on groceries helps to even out the more dramatic ups and downs in our State revenue stream so that government avoids disruptive and dysfunctional shortfalls and funding holdbacks needed to balance the budget.

The Honorable Lawrence Denney

April 11, 2017

Page 2

With the Utah experience, the advice of economists and the reasons we established the grocery tax credit in the first place in mind, I wrote a letter to our legislative leaders making it clear that I opposed removing the sales tax on groceries. It was my hope that our legislators would look beyond the understandable impulse to relieve a financial burden on taxpayers to weigh the relative merits of such a change.

Unfortunately, they did not.

Let me recap the pertinent facts from that letter:

- The State will return approximately \$149 million to Idaho taxpayers through the grocery tax credit in fiscal 2019 starting on July 1, 2018, when House Bill 67 would become effective.
- Removing the sales tax on groceries would reduce the State's General Fund revenue by over \$201 million in fiscal 2019.
- Provisions in House Bill 67 to keep local units of government from losing any revenue-sharing money as a result of the change would reduce the State's General Fund by another \$26 million.
- Overall, the General Fund would be reduced by almost \$80 million in fiscal 2019 alone, making it all the more difficult to meet our commitments to improving Idaho's education system.

I also cited the experience and regrets expressed by other states in an effort to impress upon legislators that what they were proposing would be virtually irreversible. In essence, they would be giving themselves and all those who rely on government services – in other words, every Idaho citizen – an \$80 million tattoo.

How to make up for that foregone revenue has not been expressed. I doubt it has been much considered.

Idaho Department of Insurance Director Dean Cameron was a State senator and longtime chairman of the Legislature's budget-setting Joint Finance-Appropriations Committee. In observing legislative debate on this issue, Cameron recounted the lessons he learned the hard way about the cost of a destabilized tax system.

“By removing food and other commodities from sales tax they unintentionally tie it more directly to the fluctuations of the economy. When the economic downturn comes – and it will – the Legislature will be forced into tax increases or dramatic reductions in education spending,” he wrote. “Sales tax is what saved us in the four economic downturns during my tenure.”

Putting aside the challenging and subjective calculus of deciding what by law constitutes “food” for the purposes of implementing the tax exemption created by House Bill 67, there is the additional problem of losing the sales tax revenue generated from food purchased by tourists and other non-resident travelers passing through. And none of those receipts are offset by grocery tax credit reimbursements.

Of more immediate concern is the hole that House Bill 67 would leave in our State budget just as we are facing the prospect of enormous flood damage this spring, above and beyond the winter-weather damage we already have experienced and budgeted \$52 million to address.

In summary, I understand that House Bill 67 has captured the popular imagination. It purports to provide tax relief for the working poor – a worthy ambition but one already accomplished through the grocery tax credit. The truth is this bill's benefits are largely imaginary while the downsides are many and very real. The job of all of us who represent and serve the people of Idaho is to do what's right, not necessarily what's popular. It's wonderful when the two align. In this case, unfortunately, they do not.

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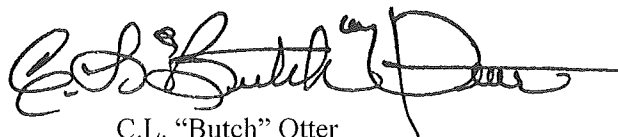
April 11, 2017

Page 3

Yet this situation should provide additional impetus for the Legislature to undertake a more comprehensive reassessment of our tax system, and particularly the wisdom and continuing utility of the multitude of tax exemptions in Idaho Code.

In the meantime, I am calling on the Legislature to send me a bill as soon as possible in the 2018 session to provide the unemployment insurance tax relief I sought this year and a one-tenth of 1 percent reduction in individual and corporate income tax rates, both retroactive to January 1, 2018. I look forward to working with legislators, our business community and Idaho taxpayers to bring about that change.

As Always – Idaho, “Esto Perpetua”

A handwritten signature in black ink, appearing to read "C.L. Butch Otter". The signature is stylized and cursive, with a long horizontal line extending to the right.

C.L. "Butch" Otter
Governor of Idaho