



# CAPITOL REVIEW

## A WEEKLY LEGISLATIVE REPORT

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### HARVEST EQUIPMENT EXEMPTION UPDATE

Last year a bill that allowed hop producers to exempt their hop production or harvest machinery from property taxation was supported by the agriculture industry and passed. At that time, all production equipment used in the harvest of a commodity was exempt by statute, but there were county assessors that were inconsistently evaluating harvest equipment for hops. Through the summer, more examples of inconsistencies surfaced which led to a tour with legislators, the Idaho State Tax Commission and county assessors to provide a better understanding of what harvest equipment is and the different methods used to harvest a diverse number of commodities.

This culminated in H87 for the 2019 Legislative Session that clarifies that **all agricultural operations be assessed similarly for farm equipment and machinery**. Though many counties in Idaho have a long history of accurately and equitably assessing harvest equipment, there have been a number of assessors that have rendered evaluations contrary to state statute. They also inconsistently assessed harvest equipment for some commodities and not for others. These improper assessments have been in contrast to the guidelines most counties have followed on harvesting equipment. H87 will provide legislative intent language to **give guidance for assessors** when they may be in doubt. H87 addresses a number of commodities that have been assessed unpredictably. It goes on to state that there may be other types of machinery or equipment used exclusively for the production or harvest of agricultural commodities that should have received this exemption but were denied the exemption in the past. The most important clarification in H87 is that the **definition of "harvest"** includes all activities **necessary for a raw agricultural commodity to be put into its most basic salable form**. The definition includes on-farm storage of the commodity before it is first handled in the primary channels of trade. H87 passed the House 67-1-2. In the Senate, H87 passed 30-3-2. Since passing through both chambers, H87 has been signed by the governor and will be retroactive to January 1, 2019.

### UPDATE ON FARMLAND ANNEXATION

Rep. Mike Moyle's bill that would require the owners of agricultural land to **provide written consent prior to being annexed**, has been signed into law. H25 would add language that if land that is five acres or greater and is actively devoted to agriculture as defined by Idaho Code, a city must have the express written permission of the owner for that land to be annexed. The provision would include agricultural land surrounded or bound on all sides by lands within a city.

Currently, there are provisions in Idaho's Right to Farm Act that specifically protect agricultural operations that may have been encroached upon by urban sprawl and large tracks of land developed for housing. H25 adds further protection to the laws that already govern annexation and property taxes. The provisions on property taxes for agricultural land can be found in Idaho Code 63-604(1) and makes it clear that land that is actively devoted to agriculture shall be eligible for appraisal, assessment and taxation as agricultural property each year. H25 adds language to Idaho Code 50-222 which addresses annexation by cities. H25 passed through the House of Representatives and Senate with no opposition. H25 was signed into law on February 14 and became effective immediately.

### UPDATE ON DEPREDATION BILLS

Rep. Fred Wood and Sen. Kelly Anthon's bill, H80, to expand the ability of land owners and those leasing ground to **file damage claims for irrigation equipment and prepared seedbed damage** is headed to the governor's desk for his consideration. **Wildlife populations are continually increasing in some agricultural areas of the state**, which produces more opportunity for damage to an array of agricultural equipment and land. In order to file a claim, a landowner or lessee must notify the Department of Fish & Game within **72 hours** of discovering damages and follow-up the initial verbal notification with a written notice within **20 days** of discovering the damages. H80 passed through the House of Representatives and the Senate with no opposition.

While H80 expands the subject matter of the type claims that can be filed, S1151 will limit the amount

paid on any one claim to 10% of the annual **Expendable Big Game Depredation Trust Account** appropriation for that fiscal year. In 2018, the Idaho Fish and Game Department received a claim from a single agriculture **producer for an organic crop** that exceeded the total amount of the other 43 claims received from all agriculture producers combined, including record claims from corn producers. That was the **first time in the history of the depredation claim program** that this had occurred. Outlier claims, like the one received in 2018, will inevitably result in pro-rating claims for all producers who file a claim in any given year. Using the current fiscal year appropriation for the Expendable Big Game Depredation Trust Account, Fish and Game would likely be pro-rating at less than **fifty-cents on the dollar**.

### ISDA TARIFF UPDATE

Food Producers of Idaho received an update from ISDA Marketing **Bureau Chief Laura Johnson** regarding tariffs on Idaho's commodities. President Trump announced global tariffs on steel and aluminum imports into the US during the summer of 2018. Countries around the world retaliated with tariffs on US products. Agricultural products were targeted by many countries. Idaho's **top three agriculture export markets, Canada, Mexico and China**, have all imposed retaliatory tariffs.

Prior to President Trump's actions, **Mexico** had not imposed any tariffs because of NAFTA. After the president's action, a 25% tariff on cheese and a 20% tariff on french fries were imposed. Mexico is the number one export market for US cheese and french fries. **Canada** has targeted mostly non-agricultural products. Even though the United States-Mexico-Canada Agreement has been reached between the countries, it has not been ratified by Congress. Further, the USMCA does not deal with the steel or aluminum tariff issue, and those tariffs will remain in place.

There have been multiple rounds of tariffs placed on US products by **China** due to corresponding tariffs placed on Chinese imports. Tariffs on dairy products have greatly impacted Idaho whey exports, which are down over 30%. Tariffs have also been placed on frozen potatoes, legumes, beef, hay, cherries, apples, and wheat. Wheat has suffered tremendously from the tariffs. China has become a large customer for US wheat over the past several years, buying over 900,000 metric tons from the US during the marketing year that ended May 31, 2018. Of that, over 300,000 metric tons was white wheat, which is largely grown in Idaho. During the most recent marketing year, China has not bought any wheat until recently when they placed an order of 40,000 metric tons.

Besides having many tariffs placed on US exports, the US is losing a seat at the table while other countries are negotiating bilateral and multilateral trade deals. Competitors are negotiating reduced tariffs with main

US markets while the tariffs on US products remain the same. The gap will likely continue to widen and place Idaho producers at an increasing disadvantage. When the Trump administration withdrew from Trans-Pacific Partnership, the remaining 11 countries went ahead with an agreement without the US. A new agreement was reached with a new name – the **Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP)**. The CPTPP became effective on December 30, 2018, for the first six ratifying countries of **Japan, Australia, Canada, Mexico, New Zealand and Singapore**. Tariffs continue to drop for our competitors and yet remain the same for Idaho. In Japan, the tariff on Australian beef has dropped to 26.9% while the tariff on US beef is still remains at 38.5%. The next round of tariff cuts go into effect April 1 and will continue to increase the disparity. The European Union has also negotiated trade agreements with our main markets including Japan. The tariff on EU beef will be eliminated over time while the 38.5% tariff on US beef will remain. Japan has agreed to open up its market for European cheese and will increase quotas for European skimmed milk powder, butter and whey. Other Idaho products that will face increased competition in the Japanese market from the EU include malt and potato starch.

Despite the headwinds, Idaho agricultural exports finished with little impacts and saw an increase of 2% in exports. These increases were accounted for by dairy products to Australia and New Zealand, who have faced droughts, and a significant increase in dairy cattle to feedlots in Canada. Overall, **Idaho food and agricultural exports in 2018 were stable**.

### SURPLUS ELIMINATOR EXTENSION

S1126 extends the surplus eliminator for five years. Consistent with the changes adopted in 2017, the funds transferred as a result of this legislation will be split equally. The **Budget Stabilization Fund** would receive half of the funds, and the other half would **be split between** the **Strategic Initiatives Fund programs** within the Idaho Transportation Department. In addition, the legislation places a **\$100 million cap on the surplus eliminator with a 50/50 split** between the Strategic Initiatives Fund programs and the Budget Stabilization Fund, up to a total of \$50 million per fiscal year for each fund. The revenue generated goes to continuing maintenance on Idaho's roads. If you have recently traveled on many of Idaho's roads, it is obvious that much needed maintenance should continue in order to move Idaho's commodities across the state. S1126 passed the Senate Transportation Committee with unanimous support and is scheduled for the Senate floor early next week.

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