

APPENDIX C

COMPETITIVE DISADVANTAGES AS A BORDER COMMUNITY

**Competitive Disadvantages
of The City of Post Falls
as a Border Community**

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Business Planning Consultants, Inc.

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APPENDIX A: Spokane Washington and Post Falls, Idaho Tax Comparisons

Competitive Disadvantages of Post Falls, Idaho as a Border Community

Executive Summary

The Idaho State Legislature has adopted House Bill No. 966 which recognizes that communities which are close to state borders can be adversely impacted by differences in tax structure, population characteristics and even geographic features. This report looks at the City of Post Falls as a border community. Disadvantages of being located a mere 3 miles from the Washington State border and only 27 miles from a population center of approximately 400,000 people, are discussed and evaluated.

The law is very specific in the criteria which can be used to determine if a community is disadvantaged. The following paragraph is taken from the law which describes a competitively disadvantaged border community.

"(6) "Competitively disadvantaged border community area" means a parcel of land consisting of at least forty (40) acres which is situated with the boundaries of an incorporated city and within twenty-five (25) miles of a state or international border, which the governing body of such incorporated city has determined by ordinance is disadvantaged in its ability to attract business, private investment, or commercial development, as a result of a competitive advantage in the adjacent state or nation resulting from inequities or disparities in comparative sales taxes, income taxes, property taxes, population or unique geographic features."

The most significant disadvantages, as allowed in the law, of Post Falls are:

- Relatively high property taxes (which adversely impact both businesses and residents);
- The disparity in food costs (due to sales tax variations) which results in Idaho shoppers traveling across the border to Washington for major food purchases;
- Higher business expenses due to the corporate and personal income tax methods used in Idaho. This is applicable to most businesses including drug stores, hotels, real estate developments, manufacturing companies and general merchandise stores, but is particularly impactful on wholesale distribution businesses with out of state sales; and
- Higher personal taxes due to the state income tax and higher local property taxes.

Introduction

Location, Location, Location. These three important factors for real estate development decisions are applicable to towns, too. Post Falls, Idaho is located along the Spokane River but high enough to prevent flooding. It is located on flat ground which is only marginally productive from an agricultural perspective although local farmers have made the most out of it by growing grass seed and sod. It has a scenic view of mountains to the south and is located close to Lake Coeur d'Alene. This lake is easily accessible by boat from Post Falls. And, the city is within a large metropolitan area which stretches from Coeur d'Alene on the east to Spokane, Washington on the west. All of these factors point to Post Falls as being an idyllic community. However, some factors of location are beyond the control of the city.

Washington State, with its border only minutes to the west, has a completely different tax structure. Washington doesn't have a state corporate or personal income tax. Property taxes are lower because urban infrastructure was built when prices were less and more federal money was available to help finance new growth. Sales tax is higher but it is not applicable to food and prescriptions. Washington State has a B&O tax (charged against gross sales) which effects some businesses more than others.

These differences, beyond the control of Post Falls, effect the ability of Post Falls to grow, to attract jobs and income for its people, and to keep money earned in Post Falls in the city.

The purpose of this report is to investigate the differences between Spokane, Washington and Post Falls, Idaho as those differences relate to growth and development. We will seek to answer the question "What disadvantages does Post Falls experience because of its proximity to the Washington State border?". In addition, we will attempt to measure those differences and determine if there are urban renewal strategies which can off-set some of these disadvantages.

Methodology

Measurement of the differences in tax structure cannot be made by merely describing the various methods of taxation. Each state's method causes different results. So, besides describing the two tax structures, comparisons were made using hypothetical businesses and resident home owner scenarios. These scenarios were prepared by taking information about certain types of businesses from the book "Almanac of Business and Industrial Financial Ratios", 1994 Edition, Published by Leo Troy and Prentice Hall Publishers, New Jersey. Gross sales, owner compensation, operating costs and net profit were obtained. These figures have been derived by surveying thousands of companies and publishing the aggregate results. Then, using hypothetical estimates of employee numbers and wages, real estate investment, hours worked per employee and percentages of in-state and out of state sales, an example company was created. This provided an even playing field upon which to evaluate the different taxing structures.

With a common company description, other specific information was required. Owners income tax rates were determined by taking the assumption regarding owners compensation and applying it to the 1993 Form 40 tax tables. This provided a fairly accurate measure of income tax payments although each individual taxpayer would have different deductions (subtractions).

Industrial insurance rates for specific classes of employees who work in these types of businesses were obtained from the Coeur d'Alene office of the State Insurance Fund. For Washington State, the publication "Rates '91" from the Department of Labor and Industries was used. Allocation of insurance rates were determined by the author based on his best judgment regarding the description of the rate and the appropriate business category.

Business and Occupation tax rates were obtained from the Washington State Business and Occupation Tax Worksheet, 1994. Again, tax classification determinations were made by the author based on the business type and the classification description.

Property tax rates were obtained from the Kootenai County Assessor and the Spokane County Assessor. A publication entitled "Rates for the Year 1993" was provided by the Idaho assessor. It included all tax code areas within Kootenai County, including those located within the City of Post Falls. For Spokane County, a copy of the levy rate sheet for all Tax Code Areas in the county was provided. From this list, those taxing areas in the Liberty Lake, East Valley, Central Valley and West Valley areas were used for comparison purposes.

Sales tax rates were obtained from the Idaho State Tax Commission in its publication "Annual Report, 1993" and from the Washington State Department of Revenue report "Location Codes- Local Sales Tax Rates, Effective July 1, 1994".

Every effort has been made to present an unbiased and accurate representation of the disadvantages of Post Falls as a border community.

Findings

Property Taxes

The gap between property tax rates for the City of Post Falls and Spokane County create a disadvantage for Post Falls. Also, because this tax disparity is felt equally across all types of development, residents as well as businesses are adversely effected.

To determine the extent of the impact of this disadvantage, property tax rates for Post Falls were compared to rates in the Spokane Valley. First, an average of the City of Post Falls Levy rates and Spokane Valley Levy rates were compared. The following table shows the average property tax rates for several areas.

Table 1

AVERAGE PROPERTY TAX LEVY RATES (PER \$1,000 OF MARKET VALUE)		
		% of Post Falls Tax
Post Falls	18.63437	
Spokane County	16.49630	89%
Liberty Lake	17.63377	95%
East Valley	16.79955	90%
Central Valley	18.14289	97%

Source: Kootenai County and Spokane County Assessors

Post Falls had the highest average property tax rates compared to the average in the Spokane Valley. However, this evaluation only considered three out of twenty-four taxing districts in the Spokane Valley. Since rates will change depending upon the districts a property is located in, it was felt that a variety of tax code areas should be considered. This would eliminate any disparities in the size of districts, assessed valuations, etc. Therefore, the evaluation was expanded to include all of the taxing districts in the valley.

To accomplish this, we have taken the highest, lowest and average taxing district in both Post Falls and the Spokane Valley and have compared them to get a fair representation of property taxation levels. The following table, Table 2, shows the results.

Table 2

RANGE OF PROPERTY TAX LEVY RATES (PER \$1,000 OF MARKET VALUE)		
	Post Falls	Spokane Valley
Highest (Note 1)	0.023226166	0.019419200
Average (Note 2)	0.018634374	0.017664438
Lowest (Note 3)	0.016147774	0.014930400

Source: Kootenai County and Spokane County Assessors

Note 1: Post Falls Tax Code Area 011-006, Central Valley Tax Code Area 1530.

Note 2: Average of all Post Falls Tax Code Areas, 1977. Average of 24 Tax Code Areas in the Spokane Valley.

Note 3: Post Falls Tax Code Areas 012,43,73,119,123,142. East Valley Tax Code Area 2080

Again, Post Falls had the highest tax rates whether considered from the perspective of the lowest rates or the highest. The average rate (derived by obtaining the average of the six taxing code areas in Post Falls and the 24 tax code areas in the Spokane Valley) was also higher by 5.5%.

Since this kind of taxation affects business and residents alike, a further analysis of the impact of property taxes was conducted as part of a larger study of overall taxes. Several types of businesses were evaluated to determine how specific taxes effected the cost of doing business in a particular location. A complete evaluation is provided in Appendix A. We will merely summarize the findings relative to property tax, here. The reader is invited to review the impact of property taxes in the context of overall tax rates by a review of the information contained in that appendix.

Several types of businesses were considered in this evaluation. Each business type is effected by different taxes in different ways. Businesses which are investment intensive will pay more property tax in Post Falls than in bordering areas of Washington State. The following table shows how property tax differences cause a disadvantage for Post Falls as a border community.

Table 3

SUMMARY OF PROPERTY TAX COSTS FOR SELECTED BUSINESSES AND RESIDENTS			
		Post Falls, Idaho	Spokane, Washington
Company Type	Market Value		
General Merchandise	1,000,000	22,536	17,712
Wholesale Trade	750,000	16,902	13,284
Manufacturing	1,250,000	28,170	22,140
Grocery Store	2,000,000	45,072	35,424
Drug Store	1,500,000	33,804	26,568
Hotel and Lodging	3,000,000	67,608	53,136
Real Estate Lessors	2,500,000	56,340	44,280
Home Owner	120,000	2,704	2,125

Source: Business Planning Consultants, Inc.

Note: The property tax rate is for Post Falls Tax Code Area 011-001. In Washington, the Liberty Lake Tax Code 2580 was used. Both tax codes are slightly above the average rate and are used as examples only.

This table shows that taxes are higher in Post Falls, Idaho for all classes of business and for residents, too. Any property developed in Idaho must weigh the added property tax against the other amenities which draw residents and businesses to this area. Property tax rates therefore cause the City of Post Falls to have a disadvantage for the development of all structures; those with the most investment have the most disadvantage. Capital intensive businesses such as manufacturing, hotels, office and industrial park developments and large retail stores would be most effected by the property tax disadvantage.

Sales Tax

The sales tax rate for Idaho State is 5.0%. This is a statewide tax and there are no local option tax capabilities for cities or counties. Some communities have been classified as resort communities and have some taxing capability. However, neither Post Falls, nor any other city in North Idaho, has been classified as a resort community. Therefore, its sales tax is a straight 5.0%. No exemptions are made for food. The only exemptions are for gasoline which has an excise tax of 22% and prescription drugs.

Washington State has a base sales tax of 6.5%. Then, local option taxes are added onto that base. Spokane County (within the Public Transit Benefit Area) has a total sales tax rate of 8.0% and the City of Spokane has a similar rate of 8.0%.

While it would appear that Idaho does not have a disadvantage regarding rates, it does when consideration is made concerning which items are taxed. Food is not subject to sales tax in Washington State. Therefore, sale of food items in Idaho State have a 5.0% disadvantage. This advantage for shoppers in Washington State may be enough to warrant Idaho residents to take the trip to Washington for major food purchases. It would not likely effect convenience stores.

Sales tax costs are not borne by the grocery store. These taxes are passed on directly to the customers. Therefore, from a perspective of the grocery retailer, the sales tax is transparent and other tax factors make Post Falls a good location. However, when a grocery store considers the cost impact on customers, location in Idaho is a disadvantage because it raises the overall cost of a food bill.

Income Taxes

Idaho State has an individual income tax which varies from 0 to 8.2%. The amount of tax varies according to the size of income and the deductions which are taken. The Idaho Income Tax Return (Form 40), follows the Federal income tax rules and provides for deductions for all the categories recognized by the Internal Revenue Service. After deductions, a taxable income is determined and taxes are paid based on a variable schedule.

Individual income tax is a consideration when locating a company or a home. If an area's taxes are high compared to other areas, a disadvantage occurs for locating homes, and businesses.

To determine the impact of income taxes on business owners, officers' compensation was determined for various types of businesses. Assumptions were made regarding the amount of deductions (called "subtractions" in the Idaho State forms) and an amount of taxable income was determined. This provides an equitable amount upon which to base the level of personal income tax. The following table shows the amount of individual tax which would be owed in the State of Idaho if the income was reported in the 1993 tax year.

No comparable tax exists in Washington State.

Table 4

SUMMARY OF IDAHO STATE PERSONAL INCOME TAX COSTS FOR BUSINESS OWNERS

Company Type	Taxable Income	Tax Rate	Tax Due
General Merchandise	100,749	7.7%	7,754
Wholesale Trade	214,632	8.0%	17,093
Manufacturing	182,112	7.9%	14,426
Business Services	115,010	7.8%	8,924
Grocery Store	180,635	7.9%	14,305
Drug Store	362,826	8.1%	29,245
Hotel and Lodging	89,472	7.6%	6,830
Real Estate Lessors	102,396	7.7%	7,889
Home Owner	35,000	6.8%	2,383

Source: Business Planning Consultants, Inc.

This demonstrates that even very high incomes do not pay the full 8.2% income tax. However, rates for average business owners will run from 7% to 8% and average income earners will pay about 6.8%.

Since there is not a comparable tax in Washington State, Post Falls, Idaho residents are definitely at a disadvantage. A proportionately larger share of individual's direct income will go to state taxes in Idaho than in Washington. Washington collects its taxes in less direct ways. This can cause business owners to be reluctant to locate a business in Idaho or, if their business is located close to the Washington border, reluctant to locate their private residence in Idaho State.

Corporate Income and Business and Occupation Tax

While there is no equivalent in Washington for the Idaho State Personal Income Tax, there is a comparable tax for corporations. Idaho has a corporate income tax and Washington State has enacted a Business and Occupation Tax (B&O Tax). Since each tax impacts different businesses in different ways, we determined the best way to create a test which would equitably compare the two taxes was to evaluate different businesses in each state with exactly the same sales, operating costs and profits and determine the cost of each tax. Please keep in mind that this tax is not transparent to the business; the B&O and corporate income taxes cannot be paid as a line item by customers like sales tax. Rather, it is part of the cost of doing businesses and must be calculated in the price of goods and services.

Idaho State Corporate Income Tax

Idaho corporation's taxable income is taxed at the rate of 8%. This is a flat rate and is applied the same as the federal government's corporate income tax. Multi-state corporations must apportion their income using an equally weighted three-factor formula comprised of property, payroll and sales.

To develop accurate scenarios for companies financial positions, the 1994 edition of the Almanac of Business and Industrial Financial Ratios was used. These studies summarize annual financial statements for thousands of corporations in specific lines of business. Ratios are determined to show the relationship between gross sales, gross profit, officer's wages, operating costs and net profit. The average volume of sales for each type of business is also provided. Using this information, hypothetical companies have been created for specific types of businesses. Then, using identical information for both Idaho and Washington corporations, tax burdens can be determined for each respective state taxing structure.

Before the results of our analysis are described, the readers should gain an understanding of the difference between a corporate income tax and the Washington State equivalent, the B&O Tax.

Business and Occupation Tax in Washington State

Washington State does not have an income tax but does tax businesses on their gross sales. Therefore, tax is applied regardless of whether the business has a profit. For startup companies or companies with a low profit margin, it is generally a disadvantage to be located in Washington State. Unlike Idaho companies, there are no deductions for business expenses or tax payments when determining the taxable amount.

In Washington State, the B&O tax rates vary according to the type of business. The following schedule shows the tax rates for each of the business sectors identified in Washington's tax code.

Table 5

WASHINGTON STATE B&O TAX RATES - 1994	
Tax Classification	Rate
Extracting	0.515%
Slaughter	0.147%
Mfg. Food Products	0.147%
Travel Agent	0.293%
Intl. Charter	0.387%
Insurance Agents	1.172%
Mfg. Fresh Fruit and Vegetables	0.351%
Printing and Publishing	0.515%
Manufacturing	0.515%
Wholesaling Dry Grains	0.012%
Internal Distribution	0.515%
Wholesaling	0.515%
Warehousing Radio and TV	0.515%
Public Road Construction	0.515%
Public Hospitals	0.750%
Selected Business Services	2.500%
Financial Business Services	1.700%
Service	2.130%
Retailing of Interstate Transp. Equipment	0.515%
Retailing	0.371%

Source: Washington State Department of Revenue

As shown in the table, tax rates vary considerably depending upon the type of business conducted. A general rule is that high volume, low margin business sales (Wholesale Dry Grains) are taxed at the lowest rates and low volume, high margin sales (Selected Business Services) are taxed highest.

Idaho Income Tax and Washington B&O Tax Comparisons

The reader is again referred to Appendix A for a complete description of each business scenario and evaluations of overall tax impacts. In this section we will evaluate the tax impact of earnings in both states.

Table 6 shows the variation in tax payments for companies with exactly the same financial status. It shows that high volume, low margin businesses like a grocery store, pay a significantly larger amount of corporate tax in Washington than in Idaho. Using this example, a grocery store with sales of \$13.9 million and a net profit of only \$192,000 would pay only \$15,361 in Idaho income tax but would pay \$65,445 in B&O tax. Therefore, high volume stores with low margins would fare better in Idaho than in Washington.

Stores with higher margins and greater net profit, however, do better in Washington from the Income tax/B&O tax perspective. General Merchandise stores,

for instance, pay less in State tax under the B&O tax method than do those subject to Corporate Income Tax.

Table 6

SUMMARY OF IDAHO STATE INCOME TAX AND WASHINGTON STATE B&O TAX ON SELECTED COMPANIES				
Company Type	Gross Sales	Net Profit	Idaho's Income Tax	Washington's B&O Tax
General Merchandise	2,343,000	237,513	19,801	11,036
Wholesale Trade	3,252,000	46,828	3,746	16,748
Manufacturing	3,252,000	352,516	28,201	16,748
Business Services	1,855,000	234,750	18,780	46,375
Grocery Store	13,895,000	192,015	15,361	65,445
Drug Store	6,719,000	224,082	17,927	31,646
Hotel and Lodging	1,864,000	288,040	23,043	39,703
Real Estate Lessors	1,932,000	672,684	53,815	41,152

Source: Business Planning Consultants, Inc.

The conclusion to this evaluation is not clear cut; the amount of income/B&O tax will vary considerable depending upon the particular characteristics of a business as demonstrated by the above example. Determination of whether a particular company is disadvantaged by locating in Idaho can only be determined upon examination of that companies sales and income characteristics. However, it can be generally stated that high volume, low margin businesses will do better in Idaho than in Washington. Conversely, low volume, high margin businesses pay a proportionately higher tax in Idaho.

One notable exception to this rule is distribution warehouses which are located in Washington but sell to customers outside the state. In those cases, B&O tax is not charged on out of state sales. To demonstrate this, the example of a Wholesale Trade Company was used with all statistics remaining the same except for the percentage of out of state sales. For purposes of demonstrating the distinct advantage of companies located in Washington which fit this category, we have used an assumption of 75% of sales out of state.

The following table, Table 7, shows the comparison between an Idaho company and a Washington State company using both 100% in state and 75% out of state sales. The B&O Tax is substantially reduced for this type of business and creates an even greater disadvantage for Post Falls.

Table 7

COMPARISON OF WHOLESALE TRADE COMPANIES WITH IN-STATE AND OUT OF STATE SALES			
Tax	Idaho	Washington	
		0% Out of-State Sales	75% Out of State Sales
Corporate Income Tax	3,746		
Owner's Income Tax	17,093		
Industrial Insurance	3,912	6,053	6,053
State Unemployment	1,680	1,940	1,940
B&O Tax		16,748	4,187
Property Tax	16,902	13,284	13,284
Total Tax	43,333	38,025	25,464

Source: Business Planning Consultants, Inc.

Industrial Insurance Rates

Idaho State has an industrial insurance rate which is based on the gross payroll for an individual. This rate varies according to the experience rating of each profession and for each business. To obtain a comparison for employment costs between the two states, it is necessary to create a specific example and determine what insurance costs would result. For our example, we used a clerical position, full time, which pays a gross salary of \$8.35 per hour (\$17,368 per year). In Idaho State, the industrial insurance costs would be \$85.10.

Washington State's industrial insurance system is based on the number of hours worked and a risk class rating for the type of job related activities. For instance, a clerical worker in Washington State is charged for insurance at the rate of \$.0837 per hour. If an average full time year of 1,920 hours (2,080 hours less vacation, holidays and sick days) was worked, this would equate to an industrial insurance cost of \$160.70.

A similar evaluation was prepared for our selected businesses. The following table, Table 8, shows the difference in Industrial Insurance costs for similar type employees in both Washington and Idaho States.

Table 8

SUMMARY OF INDUSTRIAL INSURANCE COSTS FOR IDAHO AND WASHINGTON STATES				
Company Type	# Employees	Employee Classification	Idaho	Washington
General Merchandise	10	In-store Sales	5,380	6,384
Wholesale Trade	4	Warehouse Workers	3,912	6,053
Manufacturing	4	Machine Operators	5,560	4,904
Business Services	20	Accountants	2,940	3,479
Grocery Store	30	Grocery Clerks	24,120	29,538
Drug Store	15	Pharmacist	7,320	5,325
Hotel and Lodging	10	Hotel Workers	11,820	10,820
Real Estate Lessors	3	In-house Realtors	690	729

Source: Idaho State Insurance Fund and Washington State Department of Labor and Industries.

This comparison shows that, as a general rule, Washington State has higher industrial insurance rates. However, for specific companies such as manufacturing, pharmacists and hotel workers, Idaho's rates are higher. As with the income tax/B&O tax comparison, the question of disadvantage for Post Falls will depend upon the rate classification of employees for each company. Rather than using industrial insurance as a sole determinant of disadvantage or advantage, it should be considered as only a part of the broader tax picture.

State Unemployment Compensation Tax

Idaho State Unemployment Compensation Tax is levied at a rate of 2.1% on the first \$20,400 of wages paid per employee. The maximum rate per employee (assuming an experience rating has not been established) would be \$428.40.

The Washington State rate is 2.5% but is based on the first \$19,900 per employee. Therefore, the maximum cost per employee would be \$497.50.

By applying our company scenarios to determine comparable State Unemployment Compensation tax rates, we can obtain a fair relationship of cost between the two states. See Table 9.

Table 9

SUMMARY OF STATE UNEMPLOYMENT COMPENSATION EMPLOYER COSTS					
Company Type	Salary Level	# Employees	Idaho	Washington	
General Merchandise	20,000	10	4,200	4,850	
Wholesale Trade	20,000	4	1,680	1,940	
Manufacturing	20,000	4	1,680	1,940	
Business Services	30,000	20	6,300	9,700	
Grocery Store	20,000	30	12,600	14,550	
Drug Store	20,000	15	6,300	7,275	
Hotel and Lodging	15,000	10	3,150	3,750	
Real Estate Lessors	25,000	3	5,250	1,455	

Source: Business Planning Consultants, Inc.

This table demonstrates that Washington State's workmen's compensation costs are consistently greater than Idaho's. Therefore, Post Falls, Idaho does not have a disadvantage regarding this tax.

Other Taxes

Each state has many other taxes which can effect the overall tax picture for businesses and residents. The following taxes have been identified to provide an example of some of these taxes and the impact they can have on business and residential development.

Hotel/Motel Tax

The Idaho State Hotel-Motel tax is 2% of gross revenues. Washington State is also 2% of gross revenue. Both rates are added to the existing sales tax rate charged to customers. Therefore, the overall sales tax for Idaho hotel patrons is 7% and the Washington rate is 10%. Therefore, Idaho, and Post Falls, has a disadvantage in this area.

Business License Fees

No business license fees are charged in Post Falls, Idaho. Spokane, Washington charges a fee of .05% to .2% of gross revenue. Utilities pay from 2 to 6%. These fees are not charged to businesses located outside Washington State cities. Post Falls does not have a disadvantage in this area of taxation.

Fuels Tax

Idaho State imposes fuel taxes at the following rates:

Gasoline : S.21/gallon
Diesel : S.21/gallon
Propane : S.152/gallon
Natural Gas : S.165/therm
Aviation Fuel : S.05/gallon
Jet Fuel : S.04/gallon

Washington State fuel tax is S.23/gallon for gasoline.

This indicates that Idaho does not have a disadvantage regarding fuel taxes.

Electricity Tax

Electricity generated in Idaho is taxed at 1/2 mill per kilowatt hour. In Washington, a PUD Tax is charged which is 2.14% of gross revenue plus 5.35% of 1st 4 mills per kWh. Since the impact of these tax rates will vary considerably for each type of business depending upon their power consumption patterns and volume, no effort has been made to determine the impact of the cost between Post Falls and Spokane.

Cigarette, Tobacco Tax

Cigarettes sold in Idaho are taxed at S.18 per pack of 20 cigarettes. Washington is S.54 per pack of 20 cigarettes.

Other tobacco products sold in Idaho are taxed at 35% of wholesale price. In Washington State, tobacco products are taxed at 74.9% of wholesale price.

These taxes, while not significant for determining location of a business or the relative advantage or disadvantage of being in a particular area, indicate general taxation structure in both states. As previously mentioned, Washington State generates its tax revenues in ways different from Idaho State. The higher tax rates in these categories of taxes indicated where the revenues are generated.

Overall Tax Impacts on Selected Businesses

To obtain a clearer picture of the overall tax impact on businesses and the advantage or disadvantage by being located in the State of Idaho, tax costs have been added together (for the selected business scenarios) for the following categories of tax:

Corporate Income Tax;
Owner's Income Tax;
Industrial Insurance;
State Unemployment;
State B&O Tax; and
Property Tax.

Sales tax, because it is passed on directly to customers, is not included.

Table 10 shows the total tax paid by our selected businesses. Generally, businesses paid more tax in Idaho than in Washington. Adding the total tax for the selected eight businesses resulted in total taxes paid in Idaho at \$660,476 and \$594,009 in Washington State. This is an 11.2% greater amount of tax paid in Post Falls, Idaho compared to Spokane, Washington.

This general level of taxation demonstrates that overall, most businesses located in Post Falls are at a disadvantage.

Table 10

SUMMARY OF OVERALL TAX COMPARISONS FOR SELECTED BUSINESSES		
Company Type	Total Tax	
	Idaho	Washington
General Merchandise	59,671	39,981
Wholesale Trade	43,333	38,025
Manufacturing	78,037	45,732
Business Services	36,944	59,554
Grocery Store	111,458	145,077
Drug Store	94,596	70,814
Hotel and Lodging	112,452	107,208
Real Estate Lessors	123,984	87,616

Source: Business Planning Consultants, Inc.

The overall tax impact on businesses is different if viewed from the perspective of the customer. The customer pays sales tax in addition to absorbing the costs of doing business which are included in the price charged for the goods or services. The next table, Table 11, shows the total tax paid by the business *and the customers*.

Table 11

SUMMARY OF OVERALL TAX COMPARISONS FOR SELECTED BUSINESSES WITH STATE SALES TAX ADDED		
Company Type	Total Tax	
	Idaho	Washington
General Merchandise	176,821	227,421
Wholesale Trade	43,333	38,025
Manufacturing	240,637	305,892
Business Services	36,944	59,554
Grocery Store	806,208	145,077
Drug Store	329,761	447,078
Hotel and Lodging	242,932	293,608
Real Estate Lessors	123,984	87,616

Source: Business Planning Consultants, Inc.

So, impact on the customers is greater in Washington than in Idaho. The glaring exception is grocery stores because no sales tax is added to food items in Washington State.

Overall Tax Impacts on Home Owners

Resident home owners are also disadvantaged in Post Falls, Idaho. Since Idaho State has a personal income tax, and a comparable tax on individuals in Washington State does not exist, Idaho home owners pay more taxes.

To obtain an understanding of how much difference there is in total tax payments by home owners, three "typical" scenarios were prepared for comparison. Assumptions were made for annual income, taxable income, food expenditures, consumer goods expenditures and an estimate of the market value of their home. Then, each individual's overall tax payments were measured. The results are shown on Table 12. Also, more detailed information for each scenario is provided in Appendix A.

Table 12

SUMMARY OF TAX COMPARISONS FOR RESIDENT HOME OWNERS			
Assumptions			
Annual Income	150,000	60,000	30,000
Taxable Income	110,000	35,000	18,000
Food Expenditures	5,000	4,800	4,000
Consumer Goods Expenditures	40,000	20,000	10,000
Market Home Value	250,000	120,000	80,000
Idaho Taxes			
State Income Tax (Note 1)	8,513	2,387	1,057
Annual Sales Taxes (Note 2)	2,250	1,240	700
Property Taxes (Note 3)	5,634	2,704	1,803
Total Tax	16,397	6,331	3,560
Washington Taxes			
Annual Sales Taxes (Note 4)	3,200	1,600	800
Property Taxes (Note 5)	4,428	2,125	1,417
Total Tax	7,628	3,725	2,217

Source: Business Planning Consultants, Inc.

Note 1: Tax is determined from the 1993 Tax Table, Form 40, Married Filing Jointly.

Note 2: Source is the Idaho State Tax Commission.

Note 3: Tax Code Area 011-001, City of Post Falls.

Note 4: Source is the Washington State Department of Revenue.

Note 5: Tax Code Area 2580, Liberty Lake.

This evaluation demonstrates that home owners (and all residents) have a tax disadvantage in Post Falls, Idaho compared to Spokane County, Washington.

Population

Population Size

Population size is significantly different between the neighboring communities. Spokane County is far larger than Post Falls; it is 35 times larger. The following table shows the population size relationships:

Table 13

1993 POPULATION COMPARISON CITY OF POST FALLS, KOOTENAI AND SPOKANE COUNTY	
City of Post Falls	10,854
Kootenai County	88,850
Spokane County	383,600

Source: City of Post Falls Planning Department, Kootenai County Planning Department and Spokane County Planning Department

Size is important because a larger population provides a greater number of options. More employee possibilities with a wider variety of skills. More available industrial space. More vacant buildings. More business and sales opportunities. Also, larger population areas have more service businesses to help support business activities. These include shipping, packaging, document reproduction and other associated services. All these factors contribute to creating an environment conducive to doing business.

Work Force Size

Work force statistics for the City of Post Falls are not directly reported. However, a general estimate of The City of Post Falls' contribution to Kootenai County's employment can be obtained by taking the share of Post Falls population as a percentage of the total population of Kootenai County and applying that percentage to the county's total employment. Using that assumption, there is a substantial difference in the size of the available workforce and number of jobs. This disparity shows the significant difference in the amount of employment between the two areas.

Table 14

1993 EMPLOYMENT COMPARISON CITY OF POST FALLS SPOKANE COUNTY			
Total Non-Ag. Wage and Salary Employment	Post Falls	Spokane	Post Falls, %
Manufacturing	504	19,400	2.60%
Non-Manufacturing	3,338	147,400	2.25%
Total	3,842	166,800	2.30%

Source: Kootenai and Spokane County's Job Service Departments and Business Planning Consultants, Inc.

Conclusions

Areas of Significant Disadvantage

The City of Post Falls is at significant disadvantage as a border community because of taxing methods and levels. These disadvantages include:

- Higher property taxes than bordering areas in Washington State effects both residential and business development in Post Falls;
- The corporate income tax method of taxation causes overall business taxes to be greater than in bordering areas;
- Personal income taxes create a burden on all individuals, whether business owners or employees, which is not borne by people in Washington State. This adversely effects location decisions when Spokane, Washington and Post Falls, Idaho are compared; and
- Companies which distribute products outside this area would find particularly strong incentives to be located in Washington rather than Idaho because the B&O tax is not applicable to out of state sales.
- Overall taxation of individual home owners in Idaho is greater than in Washington. When state income tax, annual sales tax payments and property taxes are added for an hypothetical home owner, Idaho State taxes are significantly higher.

Areas of Minor Disadvantages

Different types of businesses are effected by taxes in different ways. Many businesses are slightly disadvantaged by locating in Post Falls compared to Spokane, Washington because of these tax differences. In our evaluation we found that wholesale trade companies, drug stores, hotels, real estate developers, manufacturing

companies and general merchandise stores are all taxed heavier in Idaho than in Washington. The degree of difference will vary depending upon the specific business. However, all of the above listed businesses are disadvantaged when located (or considering locating) in Idaho.

Impact on Urban Renewal Projects

Urban renewal projects may assist in neutralizing, to some extent, the disadvantages of being located close to a state border. Some of the types of projects which can help to overcome these disadvantages include:

- Projects which can positively impact the community by reducing overall property tax burdens of Post Falls residents;
- Projects which reduce property tax payment of commercial and industrial properties,
- Projects to provide incentives to locate grocery stores within Post Falls;
- Projects to provide incentives to manufacturers to reduce the personal and corporate income tax and industrial insurance tax burdens;
- Projects to overcome the disadvantages for wholesale distribution businesses; and
- Projects to reduce the combination of a state income tax and proportionately higher property taxes for individual homeowners.

Appendix A: Spokane, Washington and Post Falls, Idaho Tax Comparisons

Spokane, Washington and Post Falls, Idaho Tax Comparisons

Tax Comparison for General Merchandise Stores

Assumptions	Rate/Amount	Amount	
Sales (Note 1)		2,343,000	
In-State Sales % (Note 2)	50%		
Out of State Sales % (Note 3)	50%		
Cost of Goods Sold (Note 4)	62.9%	1,473,747	
Gross Profit		869,253	
Employee Wages (Note 5)	10 employees @ \$20,000	200,000	1,920 hrs/yr/employee
Owner's Taxable Income (Note 6)	4.3%	100,749	
Other Operating Costs (Note 7)	13.7%	320,991	
Total Operating Costs		521,740	
Net Profit		247,513	
Property Market Value		350,000	
Corporate Income Tax			Idaho Washington
Post Falls, Idaho (Note 8)	8.0%	19,801	
Spokane, Washington	0.0%		
Owner's Income Tax			
Post Falls, Idaho (Note 9)	7.7%	7,754	
Spokane, Washington	0.0%		
Industrial Insurance			
Post Falls, Idaho (Note 10)	\$2.69 per \$100 of payroll	5,380	
Spokane, Washington (Note 11)	3.3325 per hour of labor		6,384
State Unemployment			
Post Falls, Idaho (Note 12)	2.1%	4,200	
Spokane, Washington (Note 13)	2.5%		4,850
B&O Tax			
Post Falls, Idaho	0.0%		
Spokane, Washington (Note 14)	0.471%		11,036
Property Tax			
Post Falls, Idaho (Note 15)	0.022536129	22,536	
Spokane, Washington (Note 15)	0.0177119		17,712
Total Tax		59,671	39,581
Sales Tax Paid by Customers			
Post Falls, Idaho (Note 16)	5.0%	117,150	
Spokane, Washington (Note 17)	8.0%		187,440
Income Tax for each employee			
Post Falls, Idaho (Note 18)	6.1%	1,220	
Spokane, Washington	0.0%		

- Note 1 - Source is Almanac of Business and Industrial Financial Ratios, SIC 5300 General Merchandise Stores
- Note 2 - Assumption of in-state sales will vary to demonstrate the impact of B&O taxes.
- Note 3 - Assumptions of out of state sales will vary to demonstrate the impact of B&O taxes.
- Note 4 - Source is Almanac of Business and Industrial Financial Ratios, General Merchandise Stores, SIC 5300, 7/90 to 6/91
- Note 5 - Employee wages are estimated at \$10.00 per hour. 1,920 hours is the State of Washington's estimate of full time hours after vacation, sick time and holidays.
- Note 6 - Source is Almanac of Business and Industrial Financial Ratios, General Merchandise Stores, SIC 5300, 7/90 to 6/91
- Note 7 - Source is Almanac of Business and Industrial Financial Ratios, General Merchandise Stores, SIC 5300, 7/90 to 6/91
- Note 8 - Assumes a maximum tax rate. Source is the Idaho State Tax Commission
- Note 9 - Assumes a maximum tax rate. Source is the Idaho State Tax Commission
- Note 10 - This is the Idaho Retail rate of \$2.69 per \$100 of payroll.
- Note 11 - Source is the Washington State Department of Labor and Industries class 6304, Department Stores
- Note 12 - 2.1% on the first \$20,400 per employee.
- Note 13 - 2.5% on the first \$19,900 per employee.
- Note 14 - B&O Tax is based on the retailing rate effective in 1994.
- Note 15 - The Property Tax rate is for Post Falls Tax Code Area 011-001, as an example only
- Note 16 - Liberty Lake Tax Code 2580 is used as an example.
- Note 17 - Source is the Idaho State Tax Commission
- Note 18 - Source is the Washington State Department of Revenue
- Note 19 - Maximum tax rate is 8.2%. Employees are assumed to pay a lesser rate of 5.1%.

Spokane, Washington and Post Falls, Idaho Tax Comparisons

Tax Comparison for Wholesale Trade Companies

Assumptions	Rate/Amount	Amount	
Sales (Note 1)		3,252,000	
In-State Sales % (Note 2)	100%		
Out of State Sales % (Note 3)	0%		
Cost of Goods Sold (Note 4)	65.8%	2,139,816	
Gross Profit		1,112,184	
Employee Wages (Note 5)	4 employees @ \$20,000	80,000	1,920 hrs/yr/employee
Owner's Wages (Note 6)	6.6%	214,632	
Other Operating Costs (Note 7)	23.7%	770,724	
Total Operating Costs		1,065,356	
Net Profit		46,828	
Property Market Value		750,000	
Corporate Income Tax			Idaho Washington
Post Falls, Idaho (Note 8)	8.0%	3,746	
Spokane, Washington	0.0%		
Owner's Income Tax			
Post Falls, Idaho (Note 9)	8.0%	17,093	
Spokane, Washington	0.0%		
Industrial Insurance			
Post Falls, Idaho (Note 10)	\$4.89 per \$100 of payroll	3,912	
Spokane, Washington (Note 11)	\$7.882 per hour of labor		6,053
State Unemployment			
Post Falls, Idaho (Note 12)	2.1%	1,680	
Spokane, Washington (Note 13)	2.5%		1,940
B&O Tax			
Post Falls, Idaho	0.0%		
Spokane, Washington (Note 14)	0.515%		16,748
Property Tax			
Post Falls, Idaho (Note 15)	0.022536129	16,902	
Spokane, Washington (Note 16)	0.0177119		13,284
Total Tax		43,333	38,025
Sales Tax Paid by Customers			
Post Falls, Idaho (Note 17)	0.0%		
Spokane, Washington (Note 18)	0.0%		
Income Tax for each employee			
Post Falls, Idaho (Note 19)	6.1%	1,220	
Spokane, Washington	0.0%		

- Note 1 - Source is Almanac of Business and Industrial Financial Ratios, SIC 5192 Wholesale Trade
- Note 2 - Assumption of in-state sales will vary to demonstrate the impact of B&O taxes.
- Note 3 - Assumptions of out of state sales will vary to demonstrate the impact of B&O taxes.
- Note 4 - Source in Almanac of Business and Industrial Financial Ratios, Wholesale Trade, SIC 5190, 7790 to 5191
- Note 5 - Employee wages are estimated at \$10.00 per hour. 1,920 hours is the State of Washington's estimate of full time hours after vacation, sick time and holidays.
- Note 6 - Source in Almanac of Business and Industrial Financial Ratios, Wholesale Trade, SIC 5190, 7790 to 5191
- Note 7 - Source in Almanac of Business and Industrial Financial Ratios, Wholesale Trade, SIC 5190, 7790 to 5191
- Note 8 - Assumes a maximum tax rate. Source is the Idaho State Tax Commission
- Note 9 - Assumes a maximum tax rate. Source is the Idaho State Tax Commission
- Note 10 - This is the Idaho Wholesale Trade rate of \$4.89 per \$100 of payroll.
- Note 11 - Source is the Washington State Department of Labor and Industries, class 2102, Warehouses
- Note 12 - 2.1% on the first \$20,400 per employee.
- Note 13 - 2.5% on the first \$19,900 per employee.
- Note 14 - B&O Tax is based on the retailing rate effective in 1994.
- Note 15 - The Property Tax rate is for Post Falls Tax Code Area 011, -001, as an example only.
- Note 16 - Liberty Lake Tax Code 2580 is used as an example.
- Note 17 - Source is the Idaho State Tax Commission
- Note 18 - Source is the Washington State Department of Revenue
- Note 19 - Maximum tax rate is 6.2%. Employees are assumed to pay a lesser rate of 6.1%

Spokane, Washington and Post Falls, Idaho Tax Comparisons

Tax Comparison for Wholesale Trade Companies

Assumptions	Rate/Amount	Amount	
Sales (Note 1)		3,252,000	
In-State Sales % (Note 2)	25%		
Out of State Sales % (Note 3)	75%		
Cost of Goods Sold (Note 4)	65.8%	2,139,815	
Gross Profit		1,112,184	
Employee Wage	4 employees @ \$20,000	80,000	1,920 hrs/yr/employee
Owner's Wages (Note 5)	5.5%	214,632	
Other Operating Costs (Note 7)	23.7%	770,724	
Total Operating Costs		1,065,356	
Net Profit		46,828	
Property Market Value		750,000	
Corporate Income Tax			
			<u>Idaho</u> <u>Washington</u>
Post Falls, Idaho (Note 8)	8.0%	3,748	
Spokane, Washington	0.0%		
Owner's Income Tax			
Post Falls, Idaho (Note 9)	8.0%	17,093	
Spokane, Washington	0.0%		
Industrial Insurance			
Post Falls, Idaho (Note 10)	\$4.89 per \$100 of payroll	3,912	
Spokane, Washington (Note 11)	\$7.882 per hour of labor		6,053
State Unemployment			
Post Falls, Idaho (Note 12)	2.1%	1,680	
Spokane, Washington (Note 13)	2.5%		1,940
B&O Tax			
Post Falls, Idaho	0.0%		
Spokane, Washington (Note 14)	0.515%		4,187
Property Tax			
Post Falls, Idaho (Note 15)	0.022536129	16,902	
Spokane, Washington (Note 16)	0.0177119		13,284
Total Tax		<u>43,333</u>	<u>25,464</u>
Sales Tax Paid by Customers			
Post Falls, Idaho (Note 17)	0.0%		
Spokane, Washington (Note 18)	0.0%		
Income Tax for each employee			
Post Falls, Idaho (Note 19)	6.1%	1,223	
Spokane, Washington	0.0%		

- Note 1 - Source is Almanac of Business and Industrial Financial Ratios, SIC 5190 Wholesale Trade
- Note 2 - Assumption of in-state sales will vary to demonstrate the impact of B&O taxes.
- Note 3 - Assumptions of out of state sales will vary to demonstrate the impact of B&O taxes.
- Note 4 - Source is Almanac of Business and Industrial Financial Ratios, Wholesale Trade, SIC 5190, 7150 to 6191
- Note 5 - Employee wages are estimated at \$10.00 per hour. 1,920 hours is the State of Washington's estimate of full time hours after vacation, sick time and holidays.
- Note 6 - Source is Almanac of Business and Industrial Financial Ratios, Wholesale Trade, SIC 5190, 7150 to 6191
- Note 7 - Source is Almanac of Business and Industrial Financial Ratios, Wholesale Trade, SIC 5190, 7150 to 6191
- Note 8 - Assumes a maximum tax rate. Source is the Idaho State Tax Commission
- Note 9 - Assumes a maximum tax rate. Source is the Idaho State Tax Commission
- Note 10 - This is the Idaho Wholesale Trade rate of \$4.89 per \$100 of payroll.
- Note 11 - Source is the Washington State Department of Labor and Industries, class 2102, Warehouses
- Note 12 - 2.1% on the first \$20,400 per employee.
- Note 13 - 2.5% on the first \$19,900 per employee.
- Note 14 - B&O Tax is based on the retailing rate effective in 1994.
- Note 15 - The Property Tax rate is for Post Falls Tax Code Area 011-001, as an example only.
- Note 16 - Liberty Lake Tax Code 2580 is used as an example.
- Note 17 - Source is the Idaho State Tax Commission
- Note 18 - Source is the Washington State Department of Revenue
- Note 19 - Maximum tax rate is 8.2%. Employees are assumed to pay a lesser rate of 6.1%

Spokane, Washington and Post Falls, Idaho Tax Comparisons

Tax Comparison for Manufacturing Companies

Assumptions	Rate/Amount	Amount	
Sales (Note 1)		3,252,000	
In-State Sales % (Note 2)	100%		
Out of State Sales % (Note 3)	0%		
Cost of Goods Sold (Note 4)	65.6%	2,123,312	
Gross Profit		1,128,688	
Employee Wages (Note 5)	4 employees @ \$20,000	20,000	1,920 hrs/yr/employee
Owner's Wages (Note 6)	5.6%	22,112	
Other Operating Costs (Note 7)	15.5%	304,060	
Total Operating Costs		526,172	
Net Profit		602,516	
Property Market Value		1,250,000	
State Corporate Income Tax			Idaho Washington
Post Falls, Idaho (Note 8)	8.0%	28,201	
Spokane, Washington	0.0%		
Owner's Income Tax			
Post Falls, Idaho (Note 9)	7.9%	14,426	
Spokane, Washington	0.0%		
Industrial Insurance			
Post Falls, Idaho (Note 10)	\$6.95 per \$100 of payroll	5,560	
Spokane, Washington (Note 11)	\$3.386 per hour of labor		4,904
State Unemployment			
Post Falls, Idaho (Note 12)	2.1%	1,580	
Spokane, Washington (Note 13)	2.5%		1,940
B&O Tax			
Post Falls, Idaho	0.0%		
Spokane, Washington (Note 14)	0.515%		16,748
Property Tax			
Post Falls, Idaho (Note 15)	0.022536129	28,170	
Spokane, Washington (Note 16)	0.0177119		22,140
Total Tax		78,037	45,732
Sales Tax Paid by Customers			
Post Falls, Idaho (Note 17)	5.0%	62,500	
Spokane, Washington (Note 18)	8.0%		260,160
Income Tax for each employee			
Post Falls, Idaho (Note 19)	6.1%	1,220	
Spokane, Washington	0.0%		

Note 1 - Source is Almanac of Business and Industrial Financial Ratios, SIC 3552, Manufacturing General Industry Machinery

Note 2 - Assumption of in-state sales will vary to demonstrate the impact of B&O taxes.

Note 3 - Assumptions of out of state sales will vary to demonstrate the impact of B&O taxes.

Note 4 - Source is Almanac of Business and Industrial Financial Ratios, SIC 3552, Manufacturing General Industry Machinery

Note 5 - Employee wages are estimated at \$10.00 per hour. 1,920 hours is the State of Washington's estimate of full time hours after vacation, sick time and holidays.

Note 6 - Source is Almanac of Business and Industrial Financial Ratios, SIC 3552, Manufacturing General Industry Machinery

Note 7 - Source is Almanac of Business and Industrial Financial Ratios, SIC 3552, Manufacturing General Industry Machinery

Note 8 - Assumes a maximum tax rate. Source is the Idaho State Tax Commission

Note 9 - Assumes a maximum tax rate. Source is the Idaho State Tax Commission

Note 10 - This is the Idaho Heavy Equipment Manufacturing rate of \$6.95 per \$100 of payroll.

Note 11 - Source is the Washington State Department of Labor and Industries - class 5109 Heavy Machinery Manufacturing

Note 12 - 2.1% on the first \$20,400 per employee.

Note 13 - 2.5% on the first \$19,900 per employee.

Note 14 - B&O Tax is based on the Manufacturing - Other rate effective in 1954.

Note 15 - The Property Tax rate is for Post Falls Tax Code Area 011,001, as an example only.

Note 16 - Liberty Lake Tax Code 2520 is used as an example.

Note 17 - Source is the Idaho State Tax Commission

Note 18 - Source is the Washington State Department of Revenue.

Note 19 - Maximum tax rate is 8.2%. Employees are assumed to pay a lesser rate of 6.1%.

Spokane, Washington and Post Falls, Idaho Tax Comparisons

Tax Comparison for Business Services, Except Advertising

Assumptions	Rate/Amount	Amount	
Sales Note 1		1,855,000	
In-State Sales % (Note 2)	100%		
Out of State Sales % (Note 3)	0%		
Cost of Goods Sold (Note 4)	0.0%		
Gross Profit		1,855,000	
Employee Wages (Note 5)	20 employees @ \$30,000	600,000	1,920 hrs/yr/employee
Owner's Wages (Note 6)	5.2%	115,010	
Other Operating Costs (Note 7)	48.8%	905,240	
Total Operating Costs		1,620,250	
Net Profit		234,750	
State Corporate Income Tax			Idaho Washington
Post Falls, Idaho (Note 8)	8.0%	18,780	
Spokane, Washington	0.0%		
Owner's Income Tax			
Post Falls, Idaho (Note 9)	7.8%	8,924	
Spokane, Washington	0.0%		
Industrial Insurance			
Post Falls, Idaho (Note 10)	\$5.49 per \$100 of payroll	2,940	
Spokane, Washington (Note 11)	\$5.0906 per hour of labor		3,479
State Unemployment			
Post Falls, Idaho (Note 12)	2.1%	6,300	
Spokane, Washington (Note 13)	2.5%		9,700
B&O Tax			
Post Falls, Idaho	0.0%		
Spokane, Washington (Note 14)	2.5%		46,375
Total Tax		36,944	59,554
Sales Tax Paid by Customers			
Post Falls, Idaho (Note 15)	0.0%		
Spokane, Washington (Note 15)	0.0%		
Income Tax for each employee			
Post Falls, Idaho (Note 17)	6.1%	1,830	
Spokane, Washington	0.0%		

Note 1 - Source is Almanac of Business and Industrial Financial Ratios, SIC 7389, Business Services, Except Advertising

Note 2 - Assumption of in-state sales will vary to demonstrate the impact of B&O taxes.

Note 3 - Assumptions of out of state sales will vary to demonstrate the impact of B&O taxes.

Note 4 - Source is Almanac of Business and Industrial Financial Ratios, SIC 7389, Business Services, Except Advertising

Note 5 - Employee wages are estimated at \$14.50 per hour. 1,920 hours is the State of Washington's estimate of full time hours after vacation, sick time and holidays.

Note 6 - Source is Almanac of Business and Industrial Financial Ratios, SIC 7389, Business Services, Except Advertising

Note 7 - Source is Almanac of Business and Industrial Financial Ratios, SIC 7389, Business Services, Except Advertising

Note 8 - Assumes a maximum tax rate. Source is the Idaho State Tax Commission

Note 9 - Assumes a maximum tax rate. Source is the Idaho State Tax Commission

Note 10 - This is the Idaho Business Service (Accountant) rate of \$5.49 per \$100 of payroll.

Note 11 - Source is the Washington State Department of Labor and Industries, class 5301, Accounting Firms

Note 12 - 2.1% on the first \$20,400 per employee.

Note 13 - 2.5% on the first \$19,900 per employee.

Note 14 - B&O Tax is based on the Selected Business Services rate effective in 1994.

Note 15 - Source is the Idaho State Tax Commission

Note 16 - Source is the Washington State Department of Revenue

Note 17 - Maximum tax rate is 8.2%. Employees are assumed to pay a lesser rate of 5.1%

Spokane, Washington and Post Falls, Idaho Tax Comparisons

Tax Comparison for Grocery Stores

Assumptions	Rate/Amount	Amount	
Sales (Note 1)		13,835,000	
In-State Sales % (Note 2)	100%		
Out of State Sales % (Note 3)	0%		
Cost of Goods Sold (Note 4)	78.6%	10,521,470	
Gross Profit		2,973,530	
Employee Wages (Note 5)	30 employees @ \$20,000	600,000	1,920 hrs/yr/employee
Owner's Wages (Note 6)	1.3%	70,635	
Other Operating Costs (Note 7)	14.4%	2,000,880	
Total Operating Costs		2,721,515	
Net Profit		252,015	
Property Market Value		2,500,000	
Corporate Income Tax			Idaho Washington
Post Falls, Idaho (Note 8)	8.0%	15,361	
Spokane, Washington	0.0%		
Owner's Income Tax			
Post Falls, Idaho (Note 9)	7.9%	14,305	
Spokane, Washington	0.0%		
Industrial Insurance			
Post Falls, Idaho (Note 10)	\$4.02 per \$100 of payroll	24,120	
Spokane, Washington (Note 11)	\$3.5149 per hour of labor		29,658
State Unemployment			
Post Falls, Idaho (Note 12)	2.1%	12,600	
Spokane, Washington (Note 13)	2.5%		14,550
B&O Tax			
Post Falls, Idaho	0.0%		
Spokane, Washington (Note 14)	0.471%		65,445
Property Tax			
Post Falls, Idaho (Note 15)	0.022536129	45,072	
Spokane, Washington (Note 15)	0.01777119		35,424
Total Tax		111,458	145,077
Sales Tax Paid by Customers			
Post Falls, Idaho (Note 16)	5.0%	654,750	
Spokane, Washington (Note 16)	0.0%		
Income Tax for each employee			
Post Falls, Idaho (Note 17)	6.1%	1,120	
Spokane, Washington	0.0%		

Note 1 - Source is Almanac of Business and Industrial Financial Ratios, SIC 5411, Grocery Stores

Note 2 - Assumption of in-state sales will vary to demonstrate the impact of B&O taxes.

Note 3 - Assumptions of out of state sales will vary to demonstrate the impact of B&O taxes.

Note 4 - Source is Almanac of Business and Industrial Financial Ratios, SIC 5411, Grocery Stores

Note 5 - Employee wages are estimated at \$10.00 per hour. 1,920 hours is the State of Washington's estimate of full time hours after vacation, sick time and holidays.

Note 6 - Source is Almanac of Business and Industrial Financial Ratios, SIC 5411, Grocery Stores

Note 7 - Source is Almanac of Business and Industrial Financial Ratios, SIC 5411, Grocery Stores

Note 8 - Assumes a maximum tax rate. Source is the Idaho State Tax Commission

Note 9 - Assumes a maximum tax rate. Source is the Idaho State Tax Commission

Note 10 - This is the Idaho Grocery Store rate of \$4.02 per \$100 of payroll.

Note 11 - Source is the Washington State Department of Labor and Industries, class 6402, Supermarkets

Note 12 - 2.1% on the first \$20,400 per employee

Note 13 - 2.5% on the first \$19,900 per employee.

Note 14 - B&O Tax is based on the retailing rate effective in 1994.

Note 15 - The Property Tax rate is for Post Falls Tax Code Area 011-001, as an example only.

Note 16 - Liberty Lake Tax Code 2580 is used as an example.

Note 17 - Source is the Idaho State Tax Commission

Note 18 - Source is the Washington State Department of Revenue

Note 19 - Maximum tax rate is 8.2%. Employees are assumed to pay a lesser rate of 6.1%

Spokane, Washington and Post Falls, Idaho Tax Comparisons

Tax Comparison for Drug Stores

Assumptions	Rate/Amount	Amount	
Sales (Note 1)		6,719,000	
Prescription % (Note 2)	30%		
Non-prescription % (Note 3)	70%		
Cost of Goods Sold (Note 4)	71.6%	4,810,804	
Gross Profit		1,908,196	
Employee Wages (Note 5)	15 employees @ \$20,000	300,000	1,920 hrs. yr. avg. over
Owner's Wages (Note 6)	5.4%	262,826	
Other Operating Costs (Note 7)	15.2%	1,021,288	
Total Operating Costs		1,684,114	
Net Profit		224,082	
Property Market Value		1,500,000	
Corporate Income Tax			Idaho Washington
Post Falls, Idaho (Note 8)	8.0%	17,927	
Spokane, Washington	0.0%		
Owner's Income Tax			
Post Falls, Idaho (Note 9)	8.1%	29,245	
Spokane, Washington	0.0%		
Industrial Insurance			
Post Falls, Idaho (Note 10)	\$2.44 per \$100 of payroll	7,320	
Spokane, Washington (Note 11)	\$1.249 per hour of labor		5,325
State Unemployment			
Post Falls, Idaho (Note 12)	2.1%	6,300	
Spokane, Washington (Note 13)	2.5%		7,275
B&O Tax			
Post Falls, Idaho	0.0%		
Spokane, Washington (Note 14)	0.471%		31,645
Property Tax			
Post Falls, Idaho (Note 15)	0.022536129	33,804	
Spokane, Washington (Note 16)	0.0177119		26,568
Total Tax		94,596	70,813
Sales Tax Paid by Customers			
Post Falls, Idaho (Note 17)	5.0%	235,155	
Spokane, Washington (Note 18)	8.0%		275,224
Income Tax for each employee			
Post Falls, Idaho (Note 19)	6.1%	1,220	
Spokane, Washington	0.0%		

- Note 1 - Source is Almanac of Business and Industrial Financial Ratios, SIC 5912, Drug Stores
- Note 2 - Assumption the % of prescription sales is arbitrary to demonstrate sales tax impact.
- Note 3 - Assumption the % of non-prescription sales is arbitrary to demonstrate sales tax impact.
- Note 4 - Source is Annual Statement Studies, SIC 5912, Drug Stores
- Note 5 - Employee wages are estimated at \$10.00 per hour. 1,920 hours is the State of Washington's estimate of full time hours after vacation, sick time and holidays.
- Note 6 - Source is Almanac of Business and Industrial Financial Ratios, SIC 5912, Drug Stores
- Note 7 - Source is Almanac of Business and Industrial Financial Ratios, SIC 5912, Drug Stores
- Note 8 - Assumes a maximum tax rate. Source is the Idaho State Tax Commission
- Note 9 - Assumes a maximum tax rate. Source is the Idaho State Tax Commission
- Note 10 - This is the Idaho Drug Store rate of \$2.44 per \$100 of payroll.
- Note 11 - Source is the Washington State Department of Labor and Industries, class 6406, Retail Stores
- Note 12 - 2.1% on the first \$20,400 per employee.
- Note 13 - 2.5% on the first \$19,900 per employee.
- Note 14 - B&O Tax is based on the prevailing rate effective in 1994
- Note 15 - The Property Tax rate is for Post Falls Tax Code Area 011-001, as an example only
- Note 16 - Liberty Lake Tax Code 2500 is used as an example
- Note 17 - Source is the Idaho State Tax Commission
- Note 18 - Source is the Washington State Department of Revenue
- Note 19 - Maximum tax rate is 8.2%. Employees are assumed to pay a lesser rate of 6.1%

Spokane, Washington and Post Falls, Idaho Tax Comparisons

Tax Comparison for Hotels and Other Lodging Places

Assumptions	Rate/Amount	Amount	
Sales (Note 1)		1,854,000	
- State Sales % (Note 2)	100%		
Out of State Sales % (Note 3)	0%		
Cost of Goods Sold (Note 4)	27.6%	514,464	
Gross Profit		1,339,536	
Employee Wages (Note 5)	10 employees @ \$15,000	\$150,000	1,920 hrs/yr/emp @ \$15.00
Owner's Wages (Note 6)	4.8%	64,972	
Other Operating Costs (Note 7)	44.1%	632,024	
Total Operating Costs		1,246,996	
Net Profit		92,540	
Property Market Value		3,350,000	
Corporate Income Tax			Idaho Washington
Post Falls, Idaho (Note 8)	8.0%	23,043	
Spokane, Washington	0.0%		
Owner's Income Tax			
Post Falls, Idaho (Note 9)	7.6%	6,830	
Spokane, Washington	0.0%		
Industrial Insurance			
Post Falls, Idaho (Note 10)	\$7.88 per \$100 of payroll	11,820	
Spokane, Washington (Note 11)	\$3.5531 per hour of labor		10,620
State Unemployment			
Post Falls, Idaho (Note 12)	2.1%	3,150	
Spokane, Washington (Note 13)	2.5%		3,750
B&O Tax			
Post Falls, Idaho	0.0%		
Spokane, Washington (Note 14)	2.13%		39,703
Property Tax			
Post Falls, Idaho (Note 15)	0.022536129	57,608	
Spokane, Washington (Note 15)	0.0177119		53,136
Total Tax		112,452	107,208
Sales Tax Paid by Customers			
Post Falls, Idaho (Note 16)	7.0%	129,780	
Spokane, Washington (Note 17)	10.0%		185,400
Income Tax for each employee			
Post Falls, Idaho (Note 18)	2.0%	3,000	
Spokane, Washington	0.0%		

- Note 1 - Source is Almanac of Business and Industrial Financial Ratios, SIC 7000 - Hotels and Other Lodging Places
- Note 2 - Assumption of in-state sales will vary to demonstrate the impact of B&O taxes
- Note 3 - Assumptions of out of state sales will vary to demonstrate the impact of B&O taxes
- Note 4 - Source is Almanac of Business and Industrial Financial Ratios, SIC 7000 - Hotels and Other Lodging Places
- Note 5 - Employee wages are estimated at \$10.00 per hour. 1,920 hours is the State of Washington's estimate of full-time hours after vacation, sick time and holidays
- Note 6 - Source is Almanac of Business and Industrial Financial Ratios, SIC 7000 - Hotels and Other Lodging Places
- Note 7 - Source is Almanac of Business and Industrial Financial Ratios, SIC 7000 - Hotels and Other Lodging Places
- Note 8 - Assumes a maximum tax rate. Source is the Idaho State Tax Commission
- Note 9 - Assumes a maximum tax rate. Source is the Idaho State Tax Commission
- Note 10 - This is the Idaho Hotel rate of \$7.88 per \$100 of payroll
- Note 11 - Source is the Washington State Department of Labor and Industries, class 4905, Motels
- Note 12 - 2.1% on the first \$20,400 per employee.
- Note 13 - 2.5% on the first \$19,900 per employee.
- Note 14 - B&O Tax is based on the Service & Other Activities rate effective in 1952
- Note 15 - The Property Tax rate is for Post Falls Tax Code Area Q11-001, as an example only.
- Note 16 - Liberty Lake Tax Code 2580 is used as an example
- Note 17 - Source is the Idaho State Tax Commission
- Note 18 - Source is the Washington State Department of Revenue
- Note 19 - Maximum tax rate is 8.2%. Employees are assumed to pay a lesser rate of 2.0%

Spokane, Washington and Post Falls, Idaho Tax Comparisons

Tax Comparison for Real Estate Operators and Lessors of Buildings.

Assumptions	Rate/Amount	Amount	
Sales (Note 1)		1,932,000	
In-State Sales % (Note 2)	100%		
Out of State Sales % (Note 2)	0%		
Cost of Goods Sold (Note 3)	14.4%	278,208	
Gross Profit		1,653,792	
Employee Wages (Note 4)	3 employees @ \$25,000	75,000	1,920 hrs/yr/employee
Owner's Wages (Note 5)	5.3%	102,396	
Other Operating Costs (Note 6)	41.5%	803,712	
Total Operating Costs		981,108	
Net Profit		672,684	
Property Market Value		2,500,000	
Corporate Income Tax			Idaho Washington
Post Falls, Idaho (Note 7)	8.0%	53,815	
Spokane, Washington	0.0%		
Owner's Income Tax			
Post Falls, Idaho (Note 8)	7.7%	7,889	
Spokane, Washington	0.0%		
Industrial Insurance			
Post Falls, Idaho (Note 10)	\$.92 per \$100 of payroll	690	
Spokane, Washington (Note 11)	\$.1266 per hour of labor		729
State Unemployment			
Post Falls, Idaho (Note 12)	2.1%	5,250	
Spokane, Washington (Note 13)	2.5%		1,455
B&O Tax			
Post Falls, Idaho	0.0%		
Spokane, Washington (Note 14)	2.13%		41,152
Property Tax			
Post Falls, Idaho (Note 15)	0.022535129	56,340	
Spokane, Washington (Note 16)	0.0177119		44,280
Total Tax		123,984	87,515
Sales Tax Paid by Customers			
Post Falls, Idaho (Note 17)	0.0%		
Spokane, Washington (Note 18)	0.0%		
Income Tax for each employee			
Post Falls, Idaho (Note 19)	8.2%	1,525	
Spokane, Washington	0.0%		

- Note 1 - Source is Almanac of Business and Industrial Financial Ratios, SIC 6511: Real Estate Operators and Lessors of Buildings
- Note 2 - Assumption of in-state sales will vary to demonstrate the impact of B&O taxes
- Note 3 - Assumption of out of state sales will vary to demonstrate the impact of B&O taxes
- Note 4 - Source is Almanac of Business and Industrial Financial Ratios, SIC 6511: Real Estate Operators and Lessors of Buildings
- Note 5 - Employee wages are estimated at \$12.00 per hour. 1,920 hours is the State of Washington's estimate of full time hours after vacation, sick time and holidays
- Note 6 - Source is Almanac of Business and Industrial Financial Ratios, SIC 6511: Real Estate Operators and Lessors of Buildings
- Note 7 - Source is Almanac of Business and Industrial Financial Ratios, SIC 6511: Real Estate Operators and Lessors of Buildings
- Note 8 - Assumes a maximum tax rate. Source is the Idaho State Tax Commission
- Note 9 - Assumes a maximum tax rate. Source is the Idaho State Tax Commission
- Note 10 - This is the Idaho Realtor rate of \$ per \$100 of payroll
- Note 11 - Source is the Washington State Department of Labor and Industries, class 7202, Real Estate Agencies
- Note 12 - 2.1% on the first \$20,400 per employee.
- Note 13 - 2.5% on the first \$19,900 per employee.
- Note 14 - B&O Tax is based on the Service & Other Activities rate effective in 1954.
- Note 15 - The Property Tax rate is for Post Falls Tax Code Area 011-001, as an example city
- Note 16 - Liberty Lake Tax Code 2580 is used as an example
- Note 17 - Source is the Idaho State Tax Commission
- Note 18 - Source is the Washington State Department of Revenue
- Note 19 - Maximum tax rate is 8.2%. Employees are assumed to pay a lesser rate of 5.1%

Spokane, Washington and Post Falls, Idaho Tax Comparisons

Tax Comparison for Resident Home Owners

Assumptions	Rate/Amount	Amount	
Annual Income		150,000	
Taxable Income		110,000	
Food Expenditures		5,000	
Consumer Goods Expenditures		40,000	
Home Value		250,000	
State Income Tax			
		Idaho	Washington
Post Falls, Idaho (Note 1)	7.7%	8,513	
Spokane, Washington			
Annual Sales Taxes			
Post Falls, Idaho (Note 2)	5.0%	2,250	
Spokane, Washington (Note 3)	8.0%		3,200
Property Taxes			
Post Falls, Idaho (Note 4)	0.022536129	5,634	
Spokane, Washington (Note 5)	0.017711900		4,428
Total Tax		16,397	7,628

Note 1: Tax is determined from the 1993 Tax Table. Form 40. Married filing jointly.

Note 2: Source is the Idaho State Tax Commission

Note 3: Source is the Washington State Department of Revenue

Note 4: Tax Code Area 011-001

Note 5: Tax Code Area 2580. Liberty Lake

Spokane, Washington and Post Falls, Idaho Tax Comparisons

Tax Comparison for Resident Home Owners

Assumptions	Rate/Amount	Amount	
Annual Income		60,000	
Taxable Income		35,000	
Food Expenditures		4,800	
Consumer Goods Expenditures		20,000	
Home Value		120,000	
State Income Tax		Idaho Washington	
Post Falls, Idaho (Note 1)	6.8%	2,387	
Spokane, Washington			
Annual Sales Taxes			
Post Falls, Idaho (Note 2)	5.0%	1,240	
Spokane, Washington (Note 3)	8.0%		1,600
Property Taxes			
Post Falls, Idaho (Note 4)	0.022536129	2,704	
Spokane, Washington (Note 5)	0.017711900		2,125
Total Tax		6,331	3,725

Note 1: Tax is determined from the 1993 Tax Table, Form 40, Married filing jointly.

Note 2: Source is the Idaho State Tax Commission

Note 3: Source is the Washington State Department of Revenue

Note 4: Tax Code Area 011-001

Note 5: Tax Code Area 2580, Liberty Lake