A Well-Balanced Tax Base

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Outline

- Review key features of different revenue sources including advantages and disadvantages.
- Outline principals of tax structure design and implementation.
- Identify elements of a resilient tax structure.
- Offer insights into how to anticipate opportunities to improve the local revenue base in good times and bad.

Key Features of Property Taxes

- Formula → "Base" versus "Rate" systems

  Utah is Base: ***Budget/Value = Rate***
- Multiple taxing jurisdictions
- Varies by value; proportionate to income
- Exemptions & exclusions
- Moderate base
- Penalty for failure to pay
- Most stable local government revenue

Key Features of Sales Taxes

- Percent of sale
  - Services not included in Utah
- State and local share of sale tax revenue
- Exemptions (food); Exclusions (government)
- Most regressive tax
- Broad base (everyone shops)
- Least stable local tax option

Key Features of Special Assessments

- Dedicated revenue for specific purpose
- Narrow base → specific beneficaries
- Can sunset
- Usually property tax-base but sometimes sales tax
- If property-based, stable and proportionate
- Transient occupancy tax (lodging)

Key Features of Utility Fees

- Water, sewer, stormwater, power
- Base/trunk/capacity reservation fee to cover capital costs
- Variable consumption fee based on use
- No exclusions or exemptions
- Broadest base; proportionate to income
- Most stable
- New theory → Off-load all facilities from general fund to Utility-like fee

Key Features of User Fees

- Fixed or variable assessments based on use (swimming pools) or service (SLCo sheriff)
- Fastest growing revenue area
- Impact fees, permit fees, connection fees
- Broad base; few exemptions or exclusions
- Least stable source because most cyclical

Design Principles: Purpose

- Raise revenue?
- Change behavior?
- Both?
- Neither?

Design: Raise Revenue

- Sufficient revenues raised
- No one can escape
  - No “free riders”
  - Benefits “capitalized”
- “Price elasticity of demand” is low, meaning people need the service
- Cannot regulate consumption much by changing tax/fee levels

Design: Change Behavior

- Revenues of secondary concern
- "Price elasticity of demand" is high
  meaning people calibrate their use
  by their willingness or ability to pay
- Can fine-tune service to achieve higher
  or lower use.

Design: The Free Rider Issue

- Who is a “free-rider” and why are they a problem?
- Solutions?
  - Gate-keeping.
  - Broaden the revenue base to “correspond” with benefit area.

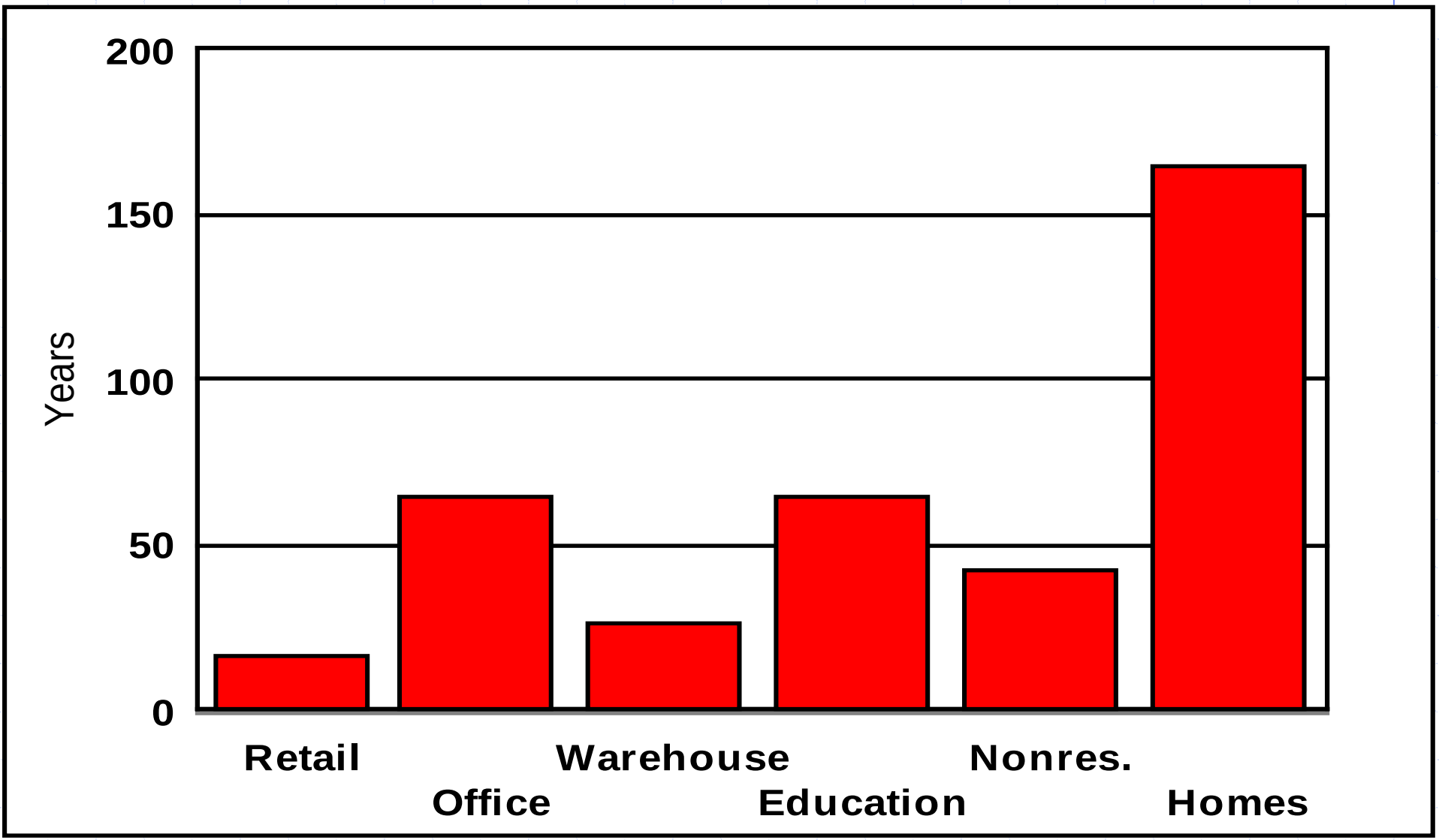
A Resilient Revenue Structure

- Blend of sources to minimize dependency on any one source.
- Largest share of revenue from most stable sources.
- Generate direct and indirect benefits in excess of costs.
- Targeted use of revenue structures to induce long-term investment (e.g.TIF)

Improving Revenue Structures

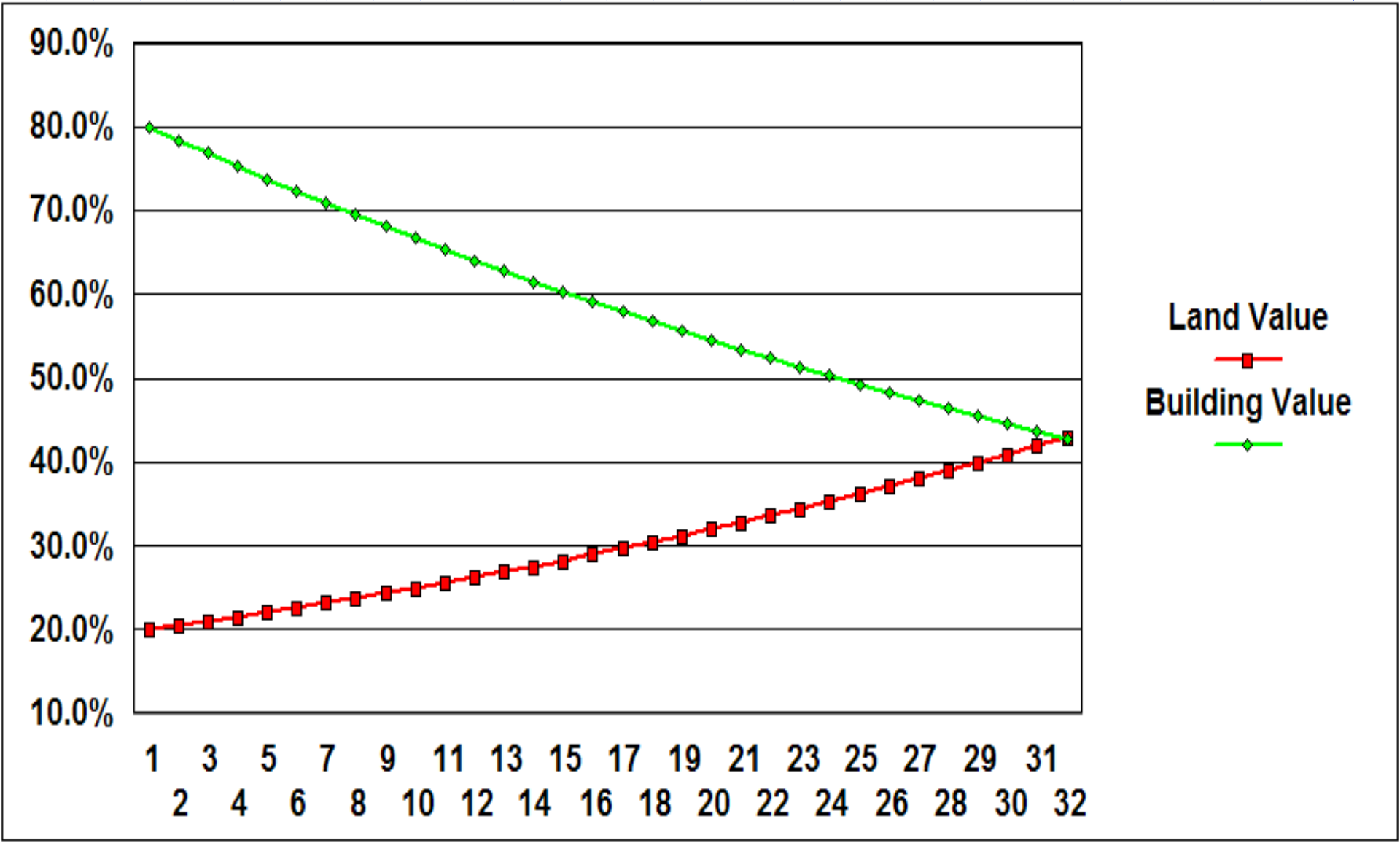
- Calibrate charges to reflect actual use.
- Differential charges based on different costs of areas and uses
- Facilitate the redevelopment/recycling of nonresidential structures.

Life-Span of Structures

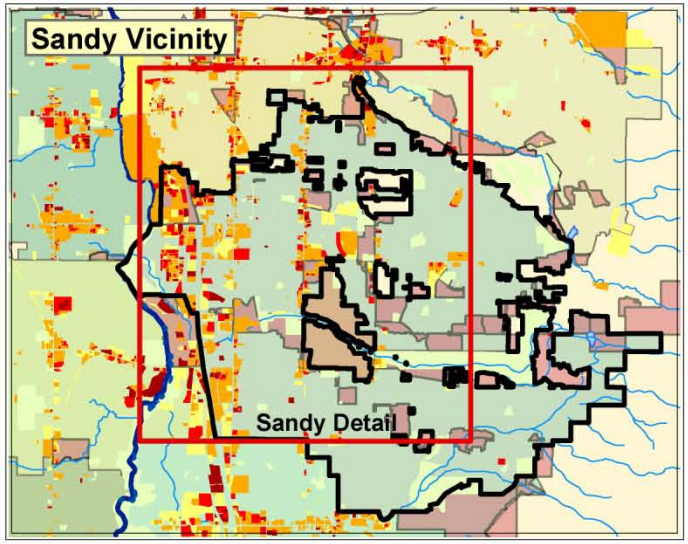


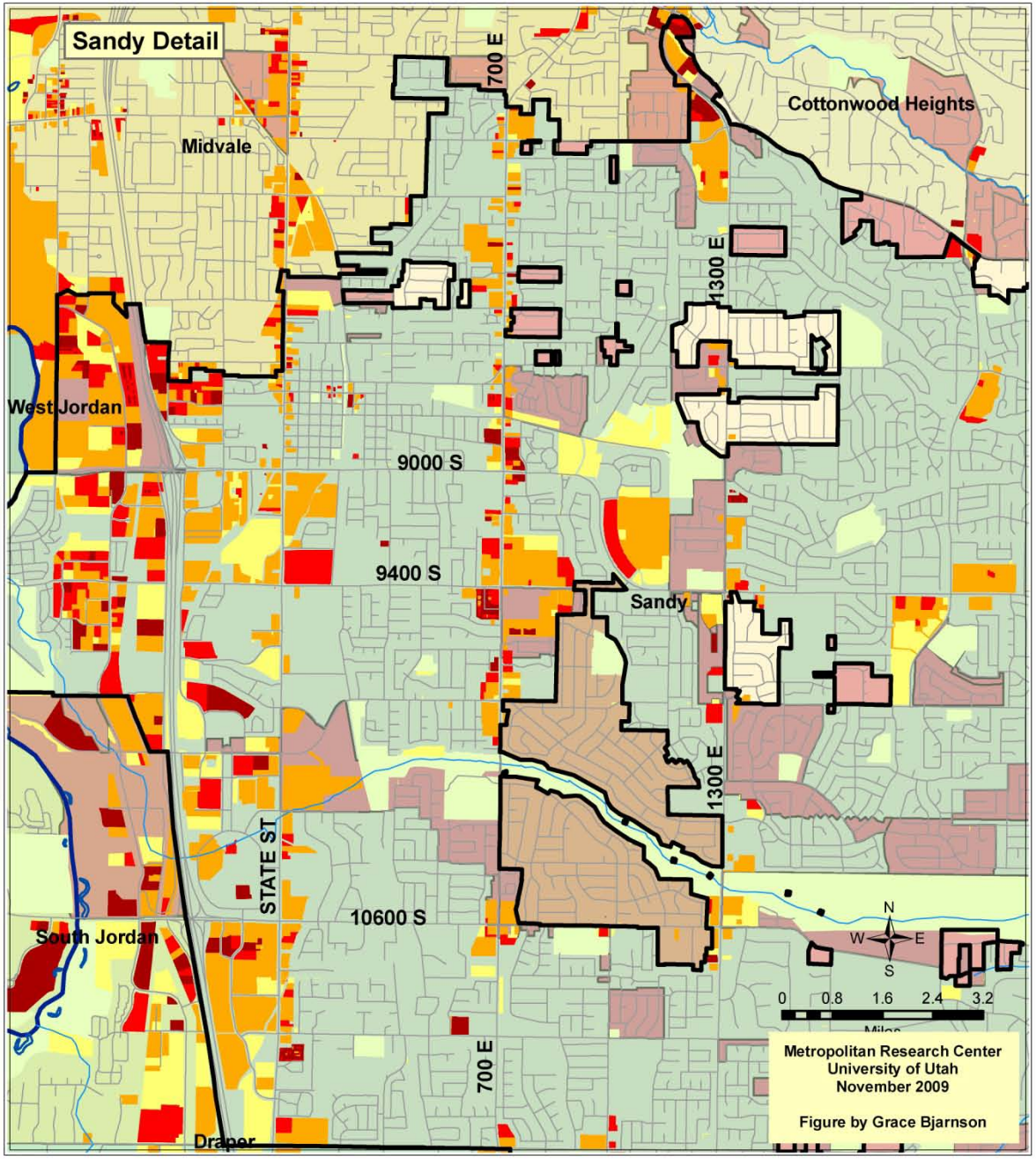
Source: Arthur C. Nelson, Presidential Professor & Director of Metropolitan Research, University of Utah, based on DoE Commercial Buildings Energy Consumption Survey.

Ripeness for Conversion:
50-Year Life @ 2.5% Land Appreciation



Sandy Total Non-Residential Ripe Parcels by 2040 and Current Non-Residential Vacant Land





Legend

- RIPE BY 2040
- RIPE BY 2030
- RIPE BY 2020
- Currently Vacant
- Parks
- County
- Unincorporated
- White City Township
- Cottonwood Heights
- Draper
- Midvale
- Riverton
- Sandy
- South Jordan
- West Jordan

Sandy Parcels by 2040

Land Use	Parcels	Acres
Industrial	225	149.97
Mixed Use	42	28.48
Office	278	243.40
Retail	1,919	462.06
Service and Entertainment	192	316.33
Warehouse and Storage	46	73.22
Currently Vacant	314	352.87
Total	3,016	1,626.33

Example of Form-Related Costs

Urban Form	Cost / Unit
Compact	$9,252
Contiguous	$11,230
Linear	$16,387
Scattered	$19,638

James B. Duncan & Associates, *The Search for Efficient Urban Growth Patterns: A Study of the Fiscal Impacts of Development in Florida*, Tallahassee: Florida Department of Community Affairs, 1989, adapted from p. 13.

New Financing Paradigm

- Self-sufficient infrastructure districts.
- Annual assessments on property tax bill
- Calculations based on Utah-style "proportionate-share" impact model →
  - Level of service tailored to each facility
  - Service areas for each facility reflecting homogeneous costs, and planning & engineering principles