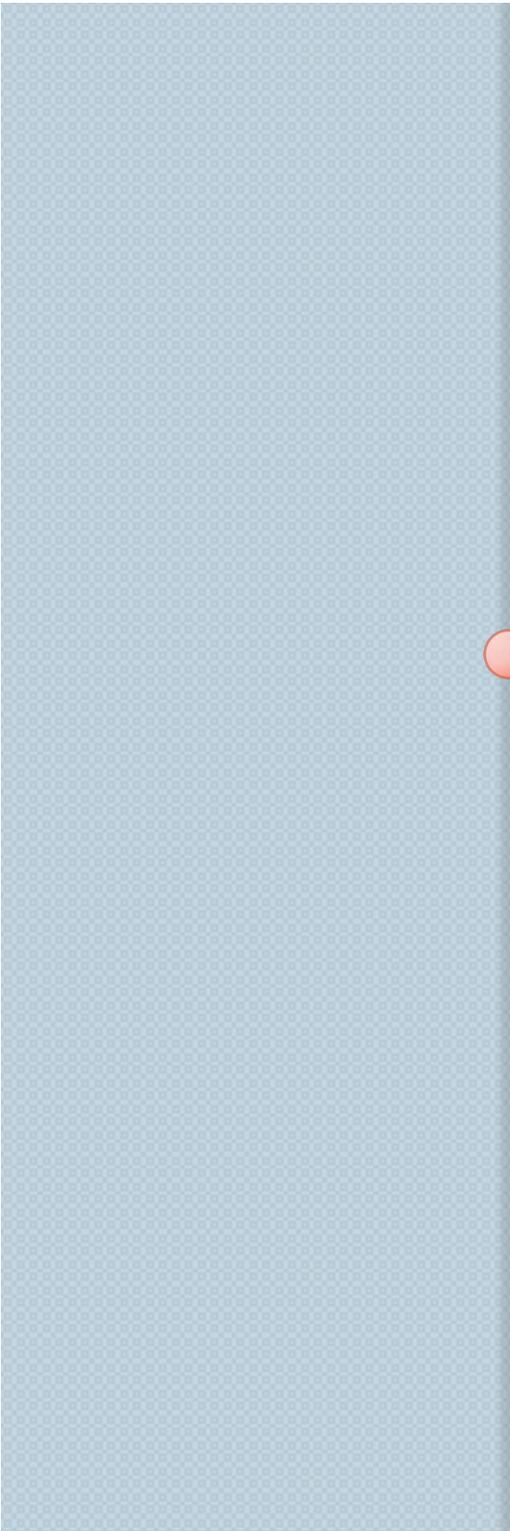




Utah League of Cities and Towns
April 7th, 2016

Property Tax Presentation



 **WHAT DO YOU THINK
OF PROPERTY TAXES?**

Truth in taxation hearings?

Property owners irate over tax hike

District near deal with teachers

At press time, the Jordan Board of Education was expected to ratify a deal on teacher pay.

Teachers next year will get a 1 percent cost-of-living increase, but lose nine days of paid professional development time. Those who have worked toward advanced college degrees will still be eligible for credits, but there will be no merit pay raises — a sticking point in the negotiations.

These and other losses amount to a 4.5 percent pay cut, according to Jordan Education Association President Robin Frodge, who says the recession and school-district split complicated negotiations.

In exchange for pay raises, teachers will be on the hook for half of their health insurance premium increase.

Budget » School board expected to approve tax increase of up to 40 percent.

By **KIRSTEN STEWART**
The Salt Lake Tribune

Riverton » More than 1,000 irate property owners filed into Riverton High School's auditorium Tuesday evening to protest a proposed 35 to 40 percent tax hike benefiting Jordan School District.

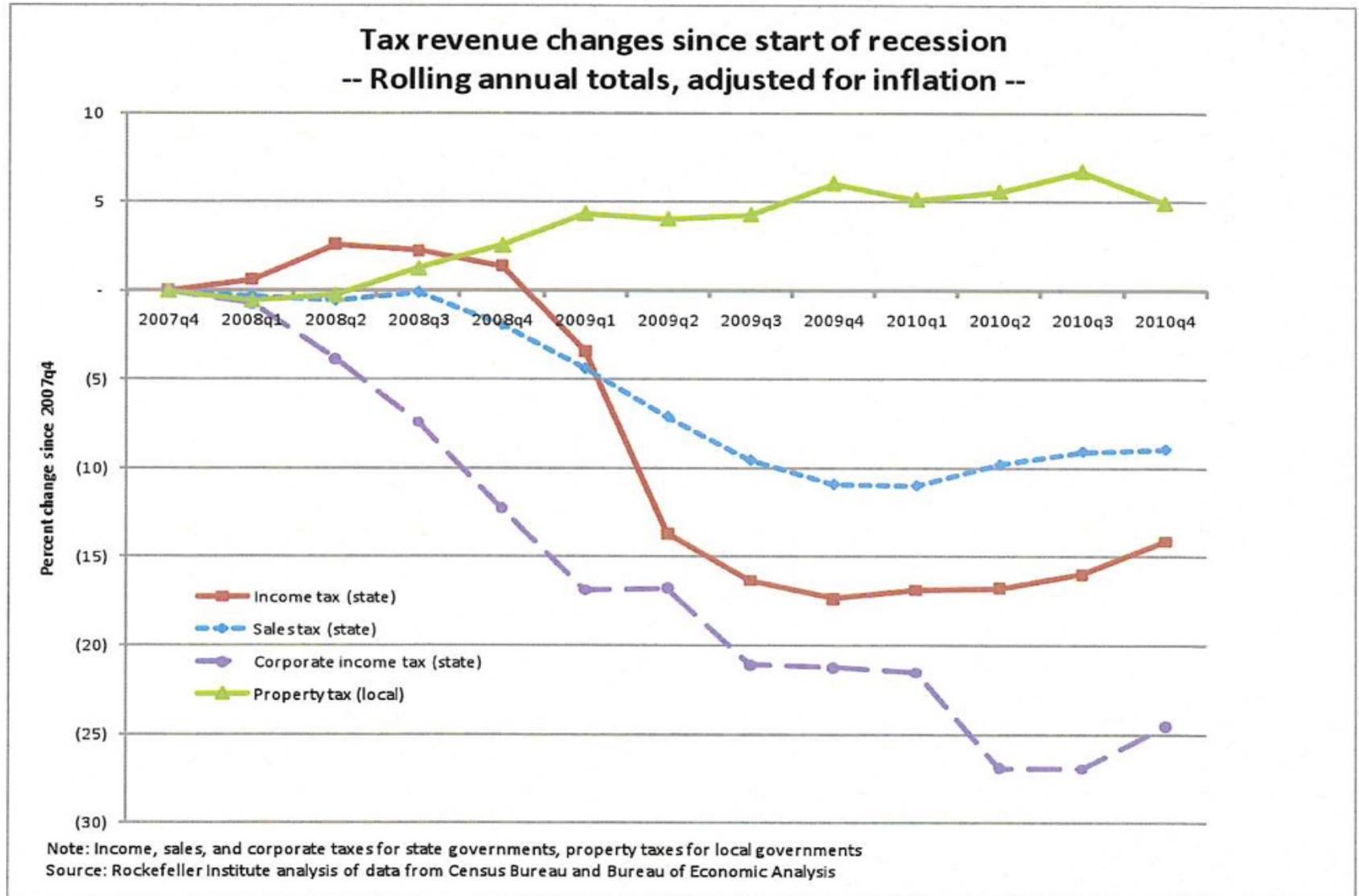
Hours of emotional testimony punctuated by thundering applause and cat calls featured seniors on fixed incomes, small-business owners, parents and laid off workers who urged the Jordan school board to find other ways to plug a \$33 million budget shortfall. Among their ideas for belt-tightening: pay cuts



STEVE GRIFFIN *The Salt Lake Tribune*

An angry Alexandra Eframo, 76, of West Jordan, scolds members of the Jordan School District Board of Education during a Tuesday meeting at Riverton High School.

Tax stability



Based on family of five with an income of **\$62,677**

Taxes	Amount	% of taxes	% of income	City Portion
Social security	\$7,155	45.1%	11.42%	\$0
State individual income	\$1,831	11.5%	2.92%	\$0
State/local sales	\$1,805	11.4%	2.88%	\$238
Municipal telecommunications				\$42
Utility Franchise				\$148
Medicare	\$1,673	10.5%	2.67%	\$0
Property tax	\$1,437	9.1%	2.29%	\$216
Auto taxes (gas tax)	\$913	5.8%	1.46%	\$83
Employment taxes	\$553	3.5%	0.88%	\$0
Excise taxes	\$281	1.8%	0.45%	\$0
Federal individual income tax	\$230	1.4%	0.37%	\$0
TOTAL	\$15,878	100%	25.34%	\$726

Source: Utah Taxpayers; City portion added by ULCT

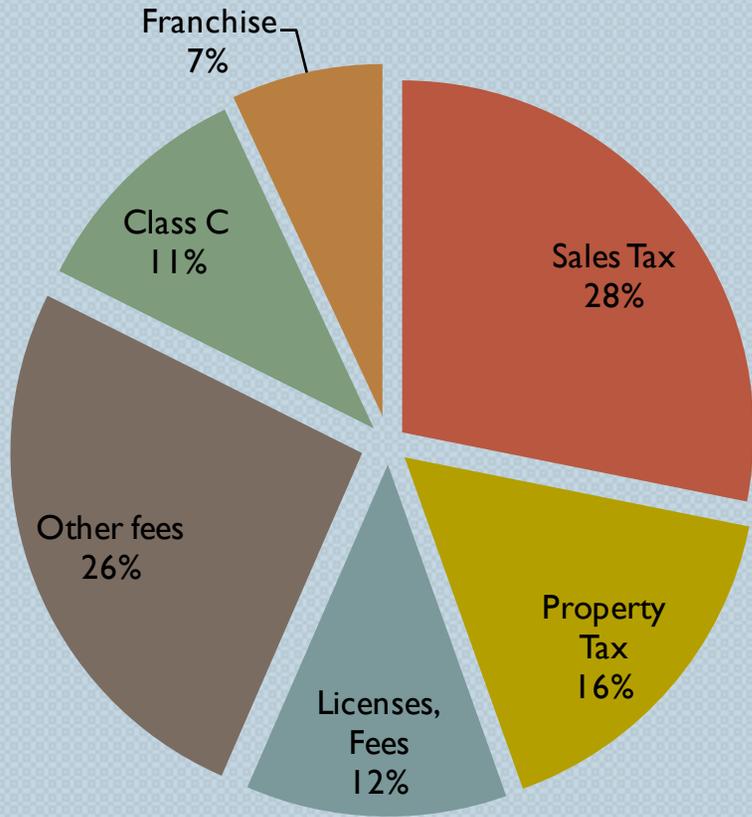
Municipal portion as a percent of income-----1.2%

Municipal portion as a percent of taxes-----4.6%

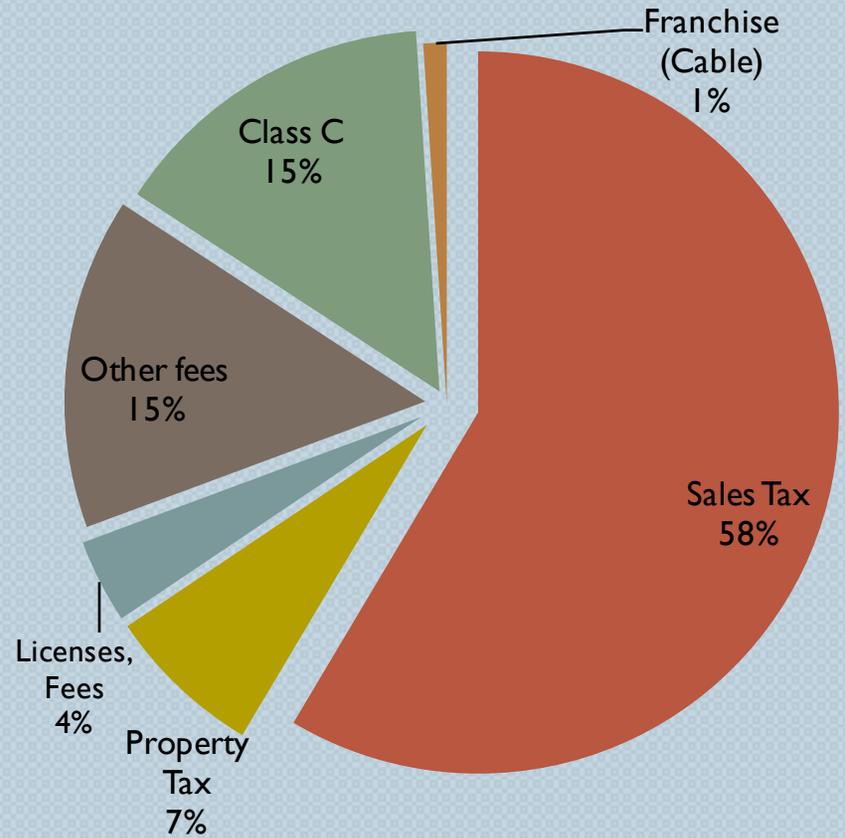
Average of All Taxes Paid...

- 58% to federal govt.
- 25% to state govt.
- 17% to local govt.

City A

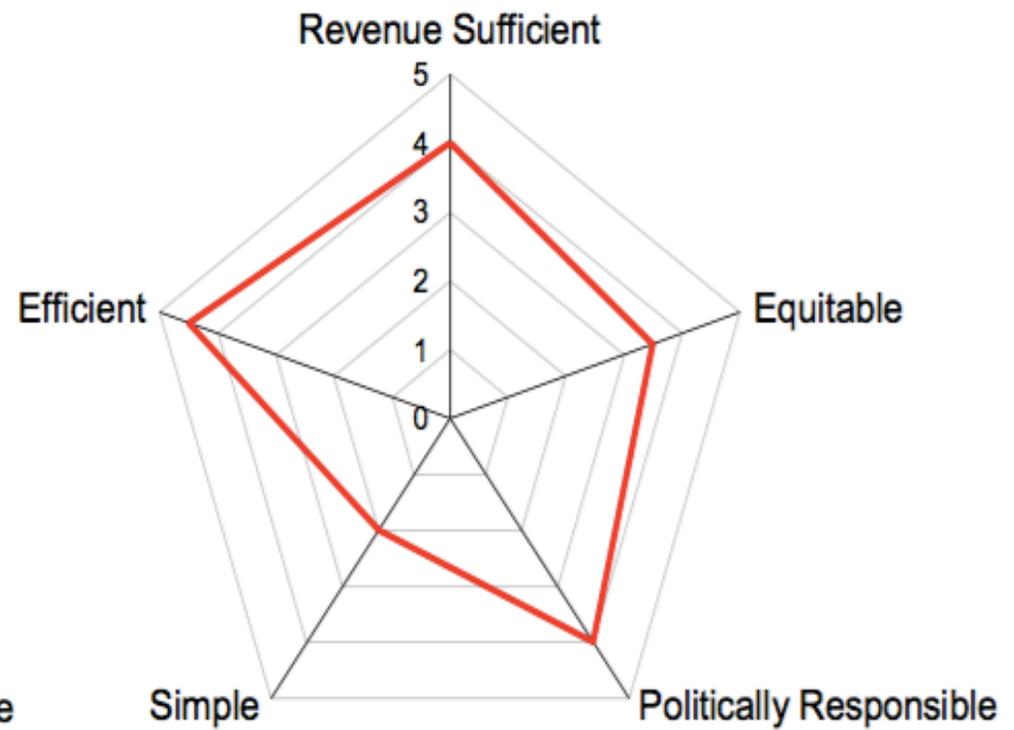
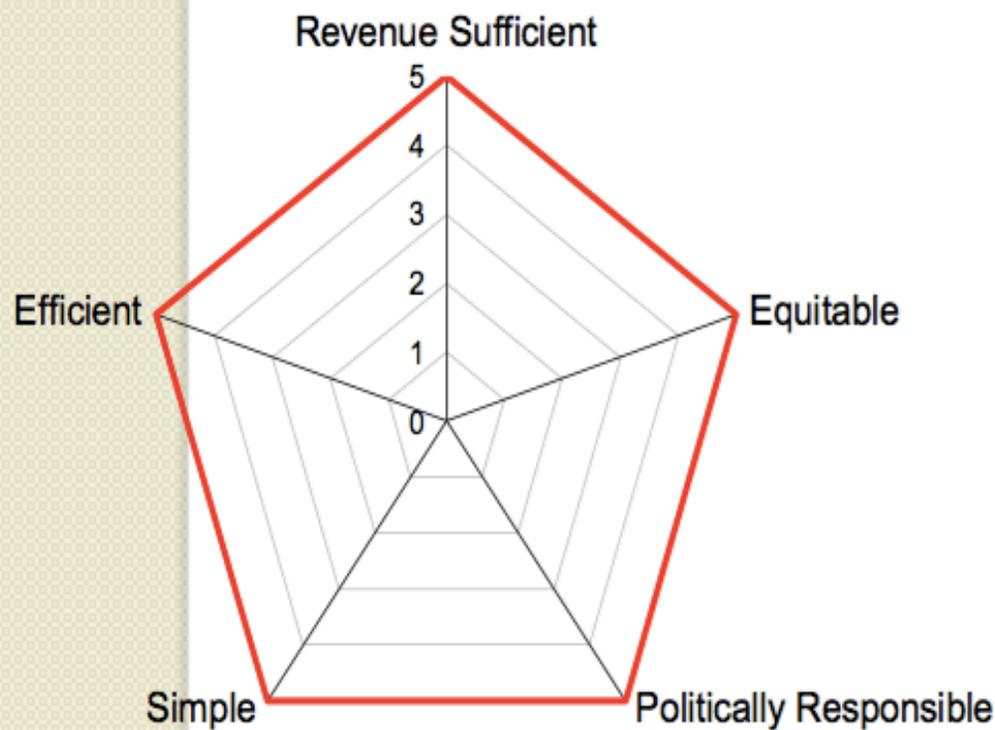


City B



Principles of Good Tax Policy

Example of Ideals Chart



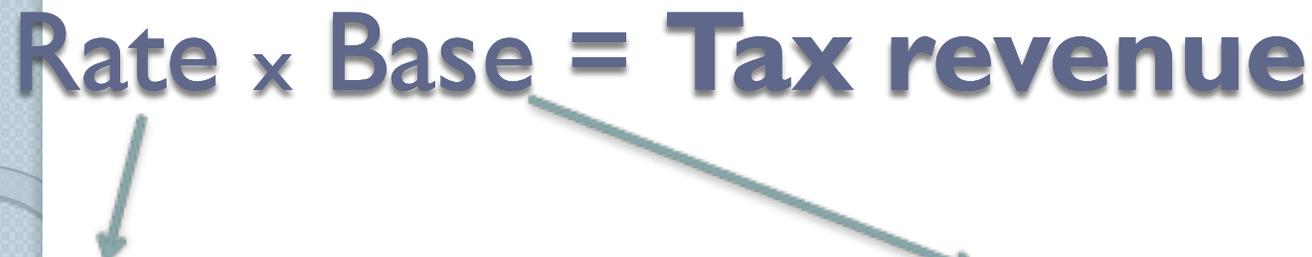
ADVANTAGES OF PROPERTY TAX

- **Stable revenue source**
 - More stable revenue source than income or sales tax
- **Exporting of burden**
 - Homeowners who don't live in the area (vacation homes)
 - Mortgage deduction from federal income tax
- **Distribution**
 - Create increased burden on those with high value land or a lot of land.
- **Local government autonomy**
 - Tax rate can vary, even for small communities
- **Old proven/reliable source**
- **Visible**
 - Does it make property tax more accountable?

CRITICISM OF PROPERTY TAX

- **Appear regressive**
 - Distribution -- Is the burden more significant for lower income families? Is the tax regressive?
- **Lack horizontal equity** (especially with local school districts)
- **Scattered fiscal affluence**
 - Especially with school districts
- **Assessment process**
 - Value is determined w/out market transactions (unlike income or sales tax)
- **Revenue and Rate Determination**
 - What causes tax increases? Rate or Base?
- **Tax on unrealized income increases**
- **Incentive Effects**
 - Do high rates negatively impact economic development?
- **Can appear complex**
- **Visible**
 - Annual report/payment

Rate x Base = Tax revenue



RATE

- Certified tax rate determined by the tax commission (calculation of previous revenue and new growth).
- Certified tax rate “floats” and does not account for inflation.
- Truth-in-Taxation required to raise the certified rate.

BASE

- Assessed property value in your community
- Primary residential 45% exemption
- Commercial and secondary property taxed at 100% value
- Determined by a mass appraisal system

Tax Components

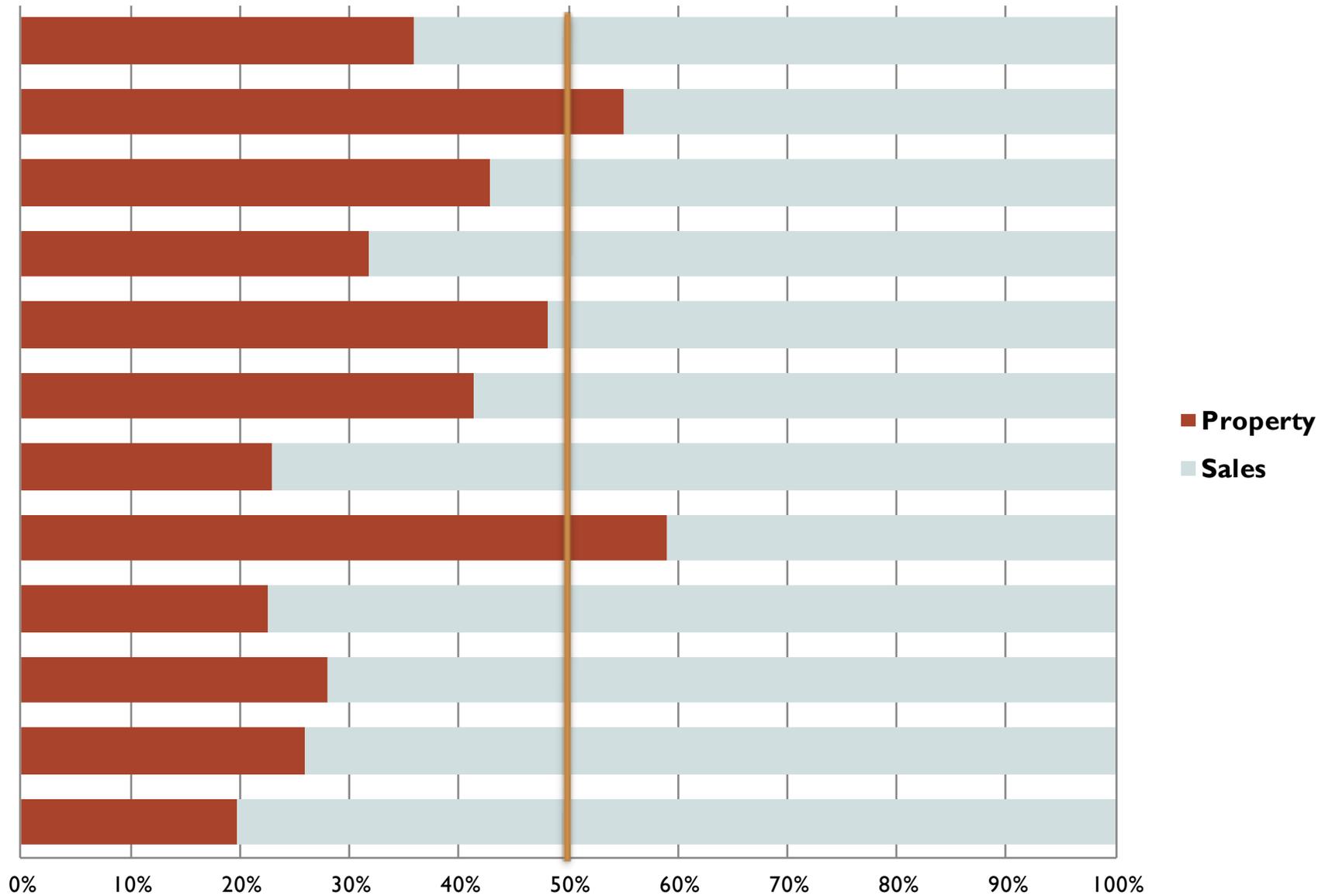
- Tax Base – What is being taxed
- Fair Market Value of Home (\$200,000)
- Tax Rate – The levy imposed against the base to determine the actual tax
- .00001
- Tax revenue: \$20



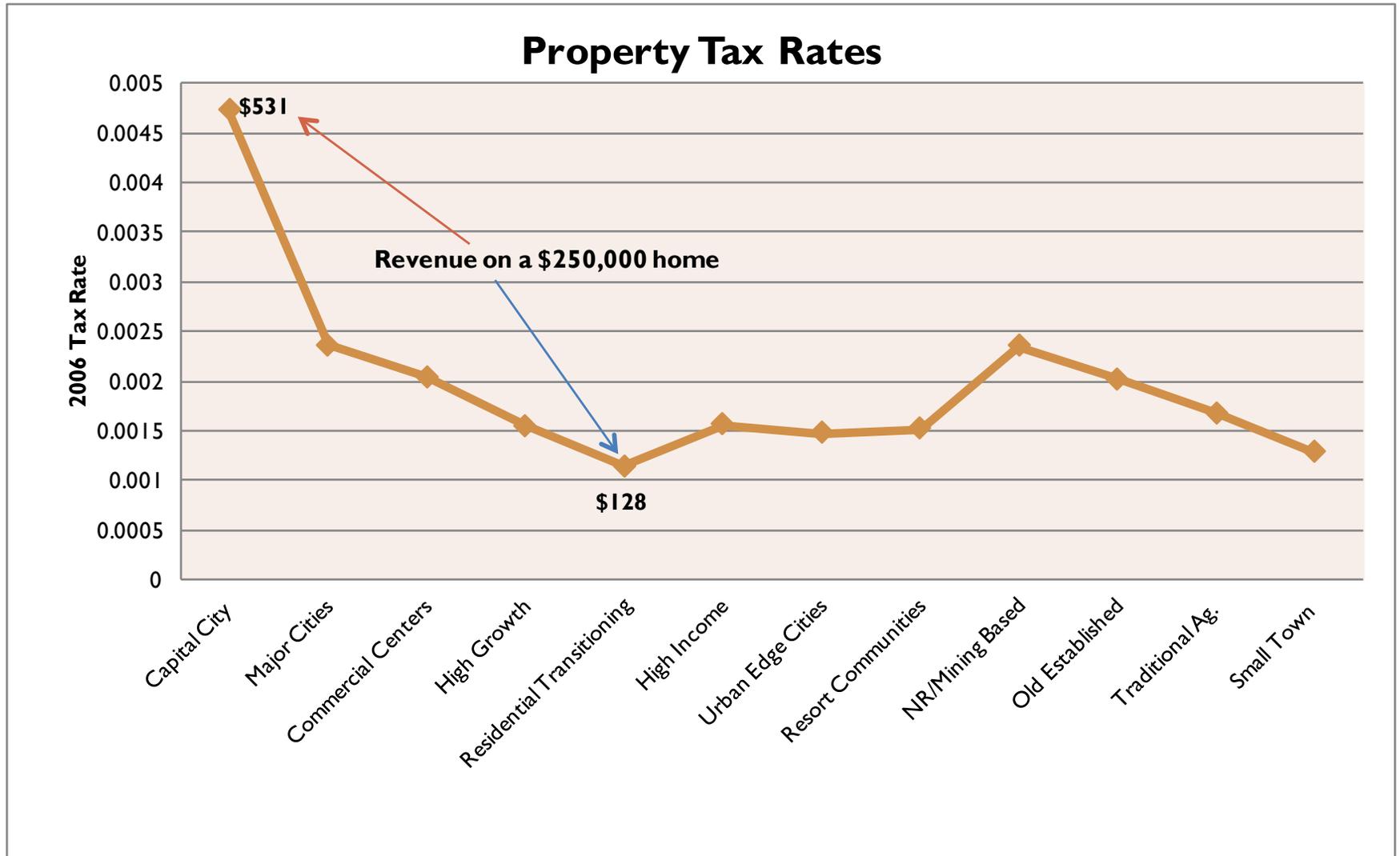
THE PROPERTY TAX BASE

- Fair Market Value –
 - Determined as of January 1st
 - County Assessor/Tax Commission
- Mass Appraisal System
 - Actual Appraisals/Statistical Methods
- There will always be inaccuracies
 - That is why there are appeals

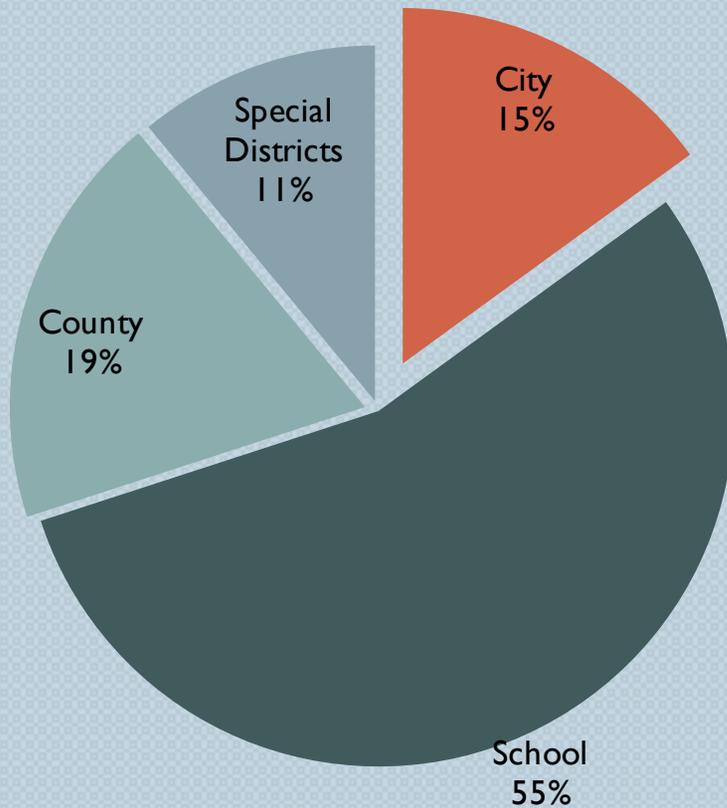
Comparison of property tax revenue to sales tax revenue



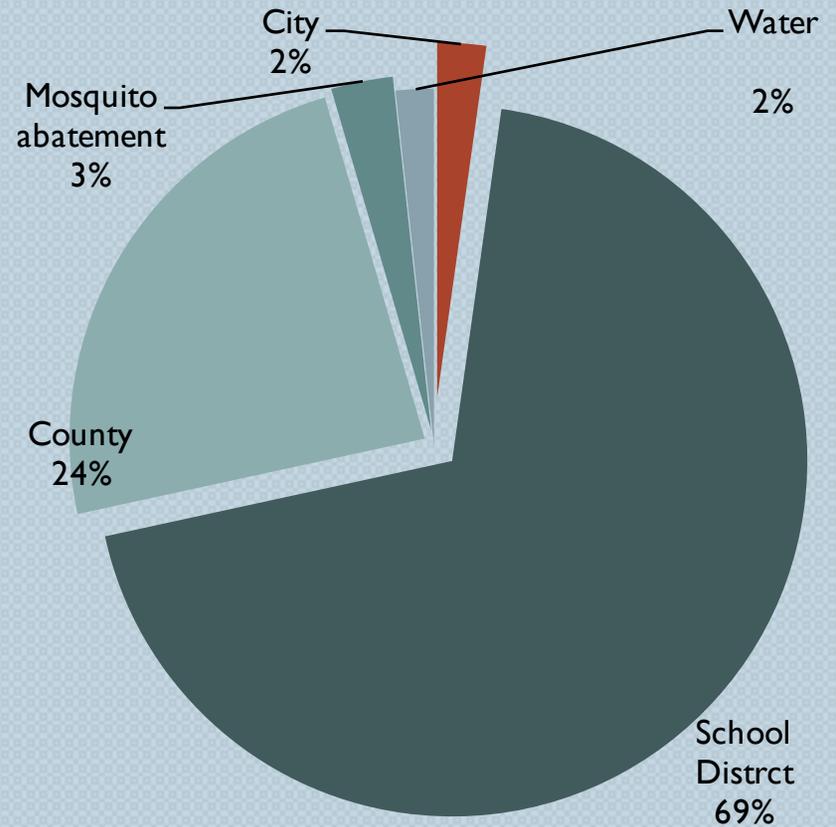
Property Tax Rate Variability



State average property tax breakdown

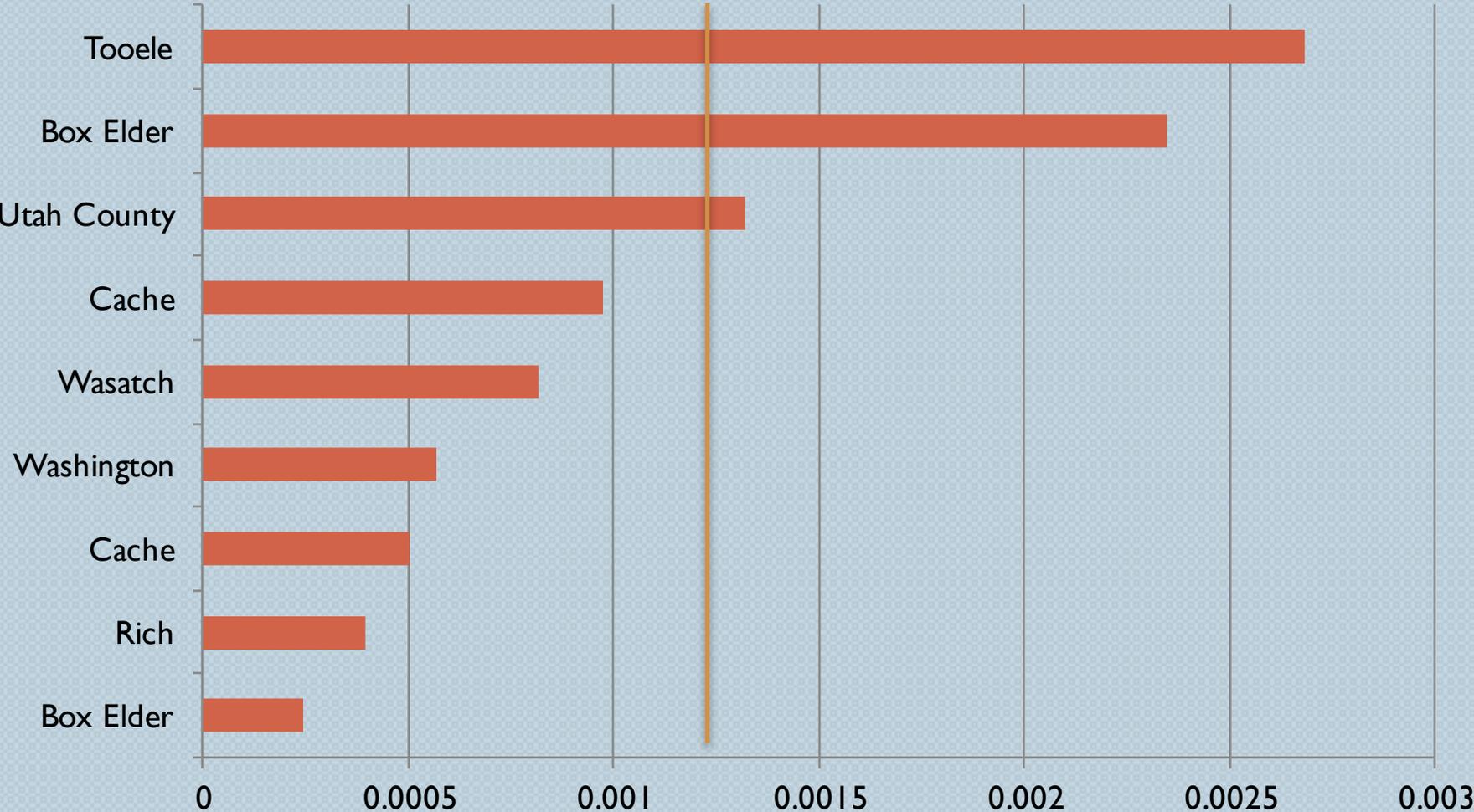


Home of \$200,000 in (\$980 in taxes -- \$21 to city or town)

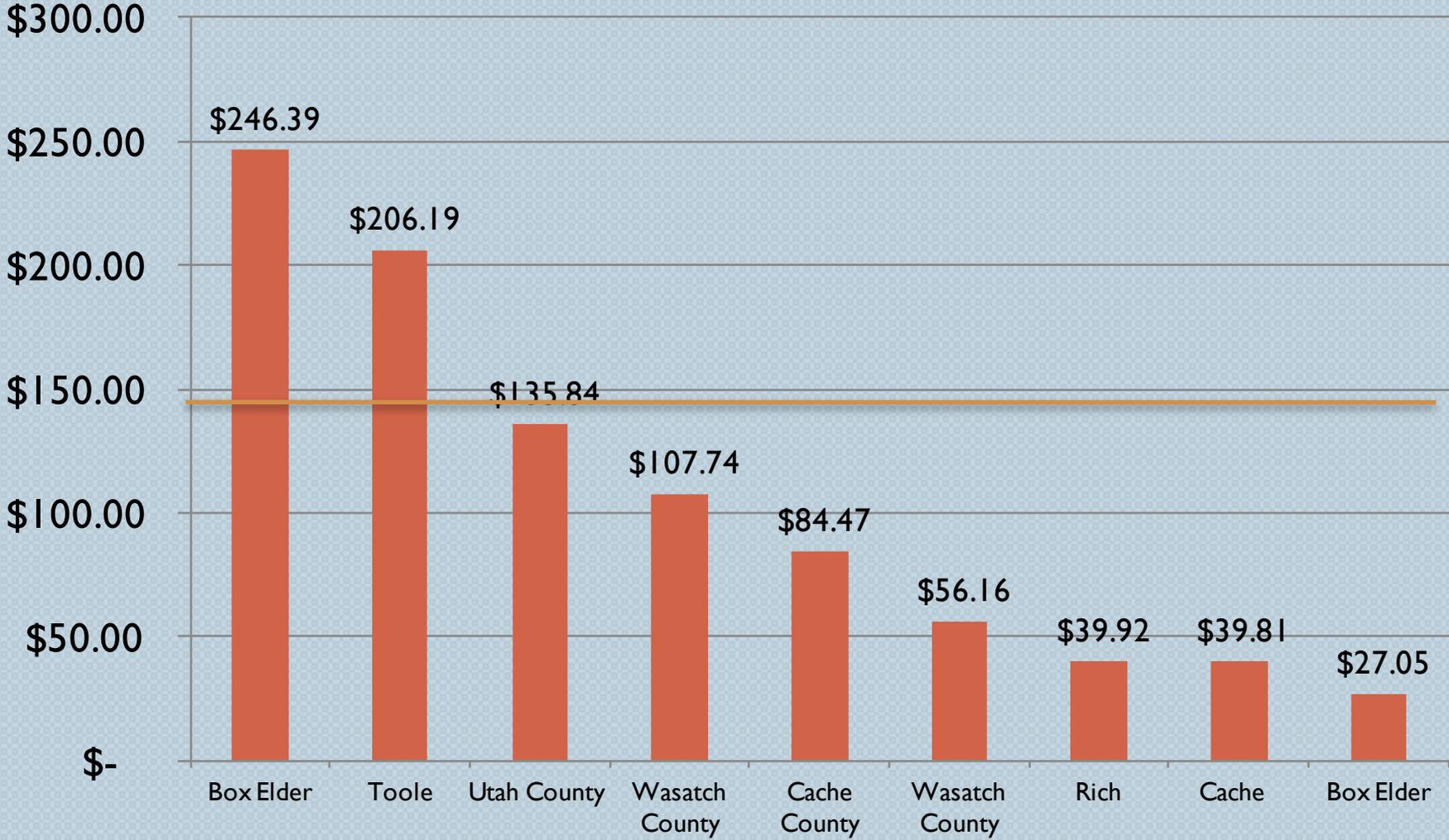


Property Tax Revenue

PROPERTY TAX RATES



CITY OR TOWN PROPERTY TAX REVENUE ON A \$250,000 HOME



Why is this so complicated?

2007 Approved Rates

Salt Lake County --

General Operations	0.001283
Interest and Sinking Fund Bond	0.000232
Flood Control	0.000070
Recreation	0.000040
Capital Improvements	0.000013
Health	0.000144
State Assessing and Collect.	0.000121
Local Assessing and Collect.	0.000063
Reappraisal	0.000026

Salt Lake City School District --

Tort Liability	<u>\$727</u>	0.000020
Recreation		0.000117
Basic School Levy		0.001311
GO Bond Payments		0.000874
Discharge of judgment		0.000013
Capital Outlay		0.000800
Voted Leeway		0.001466
Board Approved Leeway		0.000154
10% Additional Other		0.000208
K-3 Reading program (Guar.)		0.000056
K-3 Reading program (low inc.)		0.000065

Mosquito Abatement -- \$15

Mosquito Abatement

0.000102

Salt Lake City -- \$580

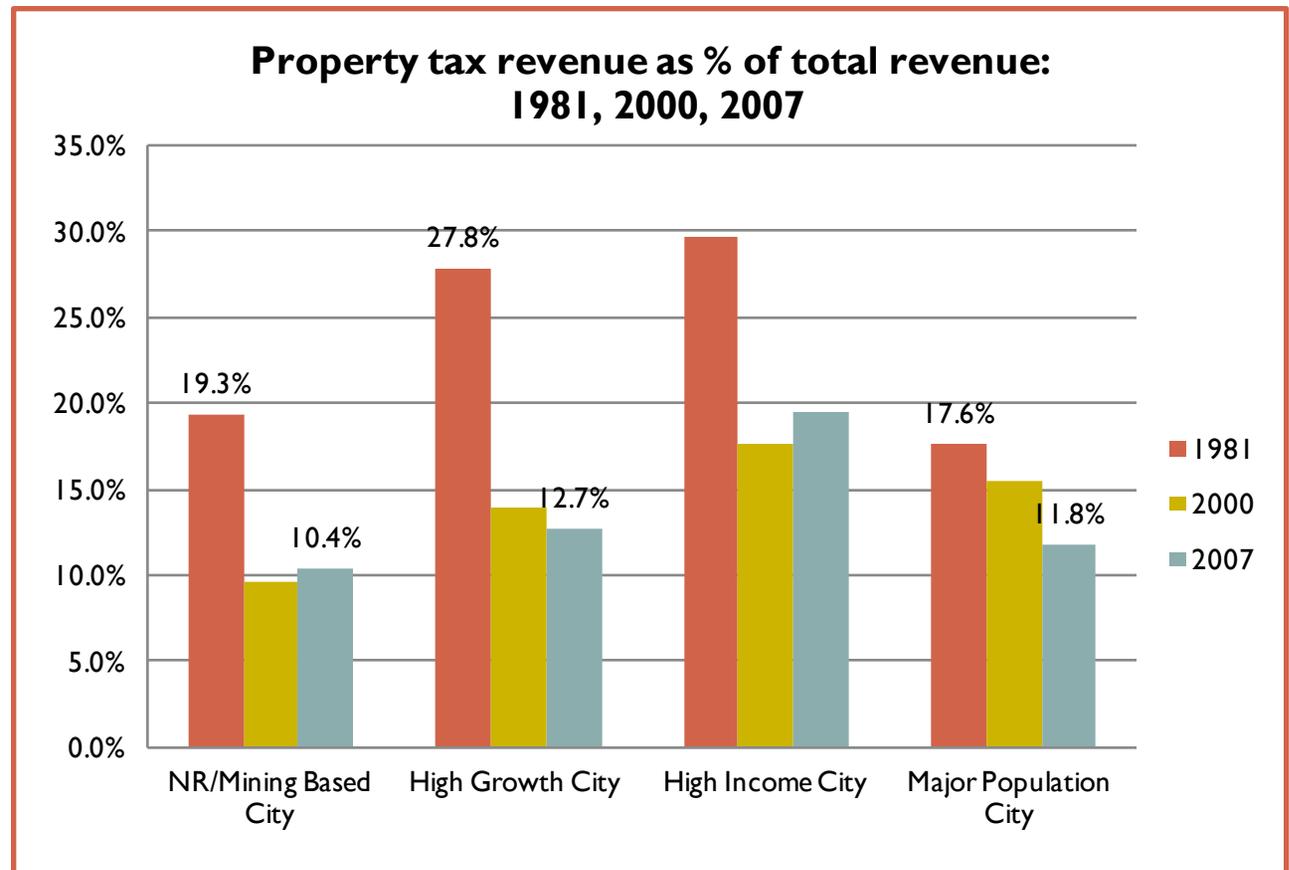
General Operations	0.002925
Interest/Sinking Fund Bond	0.000458
Library	0.000657

Water -- \$92

Salt Lake City Metro Water	0.000350
Central Utah Conservancy	0.000302



Why the decline in property tax?





Five Reasons Explaining Decline

1. Politically unpopular
 - Visible
 - Unfair administration
 - Shifting burdens
2. Statutory and constitutional limitations
 - Revolts of 1970s
3. Exemptions have been increased
 - Economic development/ charitable (Boeing and Washington)
4. Tax relief efforts
5. School district reliance has limited local government reliance

Property Taxes and Truth in Taxation

- The “truth-in-taxation” system governs the use of property tax in the budgeting process.
- It determines the specific property amount that a city will receive without taking any additional action.
- Creates a “brake” on revenue windfalls associated with increases in value
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Truth-in-Taxation

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The Property Tax/City Budgets

- Each city that levies a property tax is given a rate that will give a city the same tax dollars that it had the previous year plus new growth.
- New growth is the value of new construction that occurred during the prior tax year.
- This rate is called the certified tax rate



Truth-in-Taxation Principles

- Revenue Driven System: A city is limited to the prior year's property tax revenue plus new growth UNLESS it goes through a notification process and a public hearing.
- Objective: Increases in value do not increase property tax revenue.

Truth-in-Taxation Example

- Property Tax Base Value - \$10 million
- Property Tax Base Value increases 10% - \$11 million
- Tax Rate - .0001
- Truth-in-Taxation requires a decrease in the rate of 10% - .0000909
- Property Tax Revenue - \$100,000
- Property Tax Revenue still \$100,000

Why Significant Tax Increases?

- Property Values do not change uniformly – Especially true in a mass appraisal system.
- Example
 - A \$200,000 home increases in value 25%. The average increase in 10%. Its new value is \$250,000.
 - Truth-in-Taxation requires a rate drop of 10% (the average increase). However, the example property would still see an increase in tax of 15%.
 - Properties with a value increase below 10% would actually see a decrease.

PERCENT MARKET CHANGE AND PERCENT TAX CHANGE

SLC example of two homes

HOME A property taxes:

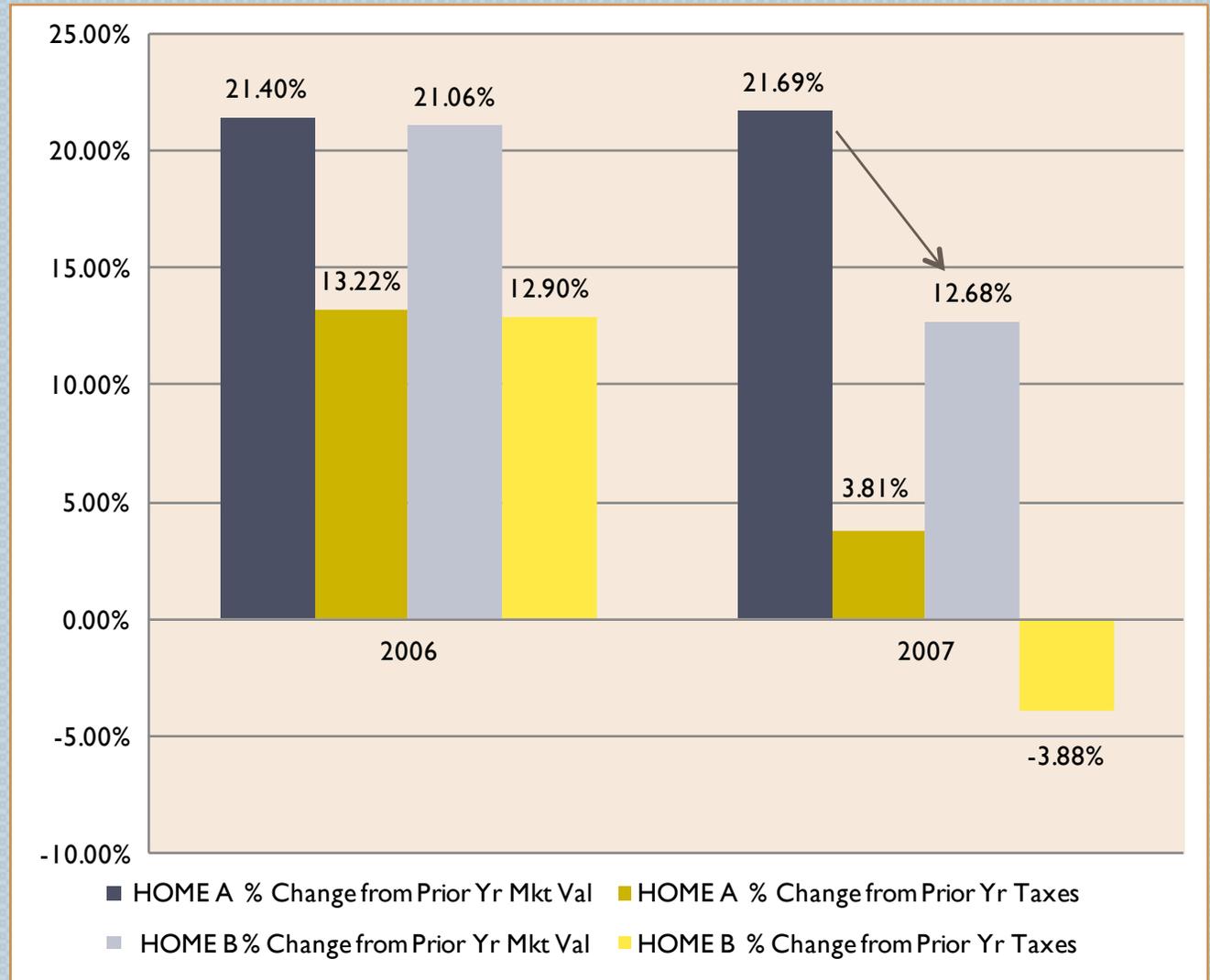
2006 -- \$1,619

2007 -- \$1,681

Home B property taxes:

2006 -- \$1,769

2007 -- \$1,700



The effect of property tax w/out inflation

- Year 1 City “X” rate .001944
 - Generate \$131 on a \$150,000 home
 - Year 10 City “X” rate .001281
 - Generate \$131 on \$228,500 home
-
- According to inflation **\$131** in year 1 has the same buying power as **\$179** ten years later
 - **Cost due to inflation -\$48 in buying power or about a 37% decrease**

Is it wise to avoid increasing the rate?

- Tempting to never go through truth-in-taxation process.
- Over time you will see a shift from property tax to other revenue sources. What is the potential impact?
- May create a pent up pressure situation where a large tax increase is needed in future rather than a series of smaller ones
- Musical chairs
- Each city and town is different



Policy concerns

- Exempt property
 - To what extent should some property owners not pay property tax (hospitals, churches, universities)
- Unfair burden
 - Is it regressive or progressive
- Inflation factors
- Economic development or competition



Property tax review

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