Utah League of Cities and Towns
April 7th, 2016
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 Frodgo, 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.

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: new cuts.

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

Tax revenue changes since start of recession
-- Rolling annual totals, adjusted for inflation --

Note: Income, sales, and corporate taxes for state governments, property taxes for local governments
Source: Rockefeller Institute analysis of data from Census Bureau and Bureau of Economic Analysis
Based on family of five with an income of $62,677

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

Source: Utah Taxpayers; City portion added by ULCT

Average of All Taxes Paid…
- 58% to federal govt.
- 25% to state govt.
- 17% to local govt.

Municipal portion as a percent of income—-1.2%

Municipal portion as a percent of taxes—-4.6%
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 $\times$ 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
- **Tax Rate** – The levy imposed against the base to determine the actual tax

- **Fair Market Value of Home** ($200,000)
- **.00001**
- **Tax revenue**: $20
THE PROPERTY TAX BASE

- Fair Market Value –
  - Determined as of January 1\textsuperscript{st}
  - 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

Property Tax Rates

Revenue on a $250,000 home

2006 Tax Rate

Capital City, Major Cities, Commercial Centers, High Growth, Residential Transitioning, High Income, Urban Edge Cities, Resort Communities, NR/Mining Based, Old Established, Traditional Ag, Small Town
Property Tax Revenue

State average property tax breakdown

- City: 15%
- School: 55%
- County: 19%
- Special Districts: 11%

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

- School District: 69%
- County: 24%
- Mosquito abatement: 3%
- City: 2%
- Water: 2%

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

- Box Elder: $246.39
- Toole: $206.19
- Utah County: $135.84
- Wasatch County: $107.74
- Cache County: $84.47
- Wasatch County: $56.16
- Rich: $39.92
- Cache: $39.81
- Box Elder: $27.05
Why is this so complicated?

2007 Approved Rates

**Salt Lake County -- $255**
- 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

**Mosquito Abatement -- $15**
- Mosquito Abatement: 0.000102

**Salt Lake City School District -- $727**
- Tort Liability: 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

**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?

Property tax revenue as % of total revenue:

- NR/Mining Based City
  - 1981: 19.3%
  - 2000: 10.4%
  - 2007: 17.6%

- High Growth City
  - 1981: 27.8%
  - 2000: 12.7%
  - 2007: 17.6%

- High Income City
  - 1981: 30.0%
  - 2000: 15.0%
  - 2007: 11.8%

- Major Population City
  - 1981: 11.8%
  - 2000: 5.0%
  - 2007: 0.0%
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
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

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