



UTAH FOUNDATION
RESEARCH • ANALYZE • INFORM

THE ESSENTIAL TAX



Property Taxation in Utah

THE ESSENTIAL TAX

PROPERTY TAXATION IN UTAH

Utah Foundation Project Staff

Christopher Collard, *Research Analyst, Lead Author*
Christian Mickelsen, *Research Intern, Co-author*
Peter Reichard, *President*
Shawn Teigen, *Vice President and Director of Research*
Dan Bammes, *Communications Director*
Sam Brucker, *Research Analyst*

Board of Trustees

Brent Jensen, <i>President</i>	Neil Abercrombie	Aaron Evans	Kelly Mendenhall
Elizabeth Hitch, <i>Vice President</i>	Lloyd Allen	David Gessel	Brad Mortensen
Peter Mann, <i>Treasurer</i>	Brian Autry	Terry Grant	Dale Newton
Mark Buchi, <i>Fund-Raising Chairman</i>	Scott Barlow	Michael Gregory	Angie Osguthorpe
Nathan Anderson, <i>Executive Board</i>	Zachary Barrus	Andrew Gruber	Wayne Pyle
David Bird, <i>Executive Board</i>	Martin Bates	Neil Hafer	Rona Rahlf
Dan Eldredge, <i>Executive Board</i>	Blake Bauman	Raymond Hall	Tim Sheehan
Bryson Garbett, <i>Executive Board</i>	Scott Beck	Matt Hirst	Harris Simmons
Jonathan Johnson, <i>Executive Board</i>	Doug Boudreaux	Annalisa Holcombe	Heidi Walker
Dennis Lloyd, <i>Executive Board</i>	Craig Broussard	Matt Huish	LaVarr Webb
Steve McDougal, <i>Executive Board</i>	Benjamin Brown	Robert Hyde	Gary Whatcott
Scott Parson, <i>Executive Board</i>	Jonathan Campbell	Richard Lambert	Audry Wood
Gregory Poulsen, <i>Executive Board</i>	Gary Carlston	David Litvack	
Melissa Shanjangange, <i>Executive Board</i>	Carlton Christensen	Dennis Lloyd	
Matt Sibul, <i>Executive Board</i>	Tom Christopoulos	Frank Lojko	
Mark Walker, <i>Executive Board</i>	J. Philip Cook	Linda Makin	
Mike Washburn, <i>Executive Board</i>	Bill Crim	Celeste McDonald	
Chad Westover, <i>Executive Board</i>	Fred Esplin	Forrest McNabb	

Research Report 750



UTAH FOUNDATION

RESEARCH • ANALYZE • INFORM

150 S. State St., Ste. 444
Salt Lake City, Utah 84111
utahfoundation.org

About Utah Foundation

The mission of Utah Foundation is to promote a thriving economy, a well-prepared workforce, and a high quality of life for Utahns by performing thorough, well-supported research that helps policymakers, business and community leaders, and citizens better understand complex issues and providing practical, well-reasoned recommendations for policy change.

Support Our Work

Utah Foundation relies on the support of business and civic leaders and average citizens to produce the high-quality, independent research for which we're known. To become a member or sponsor one of our projects or programs, contact us at 801-355-1400.

“The power of taxing people and their property is essential to the very existence of government.”

- James Madison

INTRODUCTION

Property tax is one of the legs of Utah’s “three-legged stool” of tax revenues, along with the income and sales taxes. During the nineties and early aughts, the property tax was the smallest revenue generator of the three. However, with the 2008 income tax reform and the erosion of sales tax revenues, the three have been more equal, with the property tax bringing in approximately \$3.3 billion in 2016, compared to \$3.6 billion for income tax and \$2.7 billion for sales tax.

The largest portion of property tax revenues come from taxes on primary residences, followed by commercial real estate. These revenues are used for a wide variety of governmental services, from K-12 education to mosquito abatement.

While the property tax is among the most time-tested forms of taxation, citizens and policymakers have recently revisited the particulars of Utah’s approach. Specifically, they are examining ways tax policy might be modified to produce greater revenues for K-12 education. They are also looking to ensure that the current property tax structure does not have an unduly negative affect on local government revenues.

This report helps readers understand the property tax. To do so, it explains the current workings of the property tax from a statewide perspective, details the various purposes of a property tax and looks at potential changes. In light of recent concerns about school taxes and the state’s Truth in Taxation law, the report provides a special focus on those issues.

This is the first installment in Utah Foundation’s Utah Tax Policy Series. Subsequent reports will address sales and income taxes.

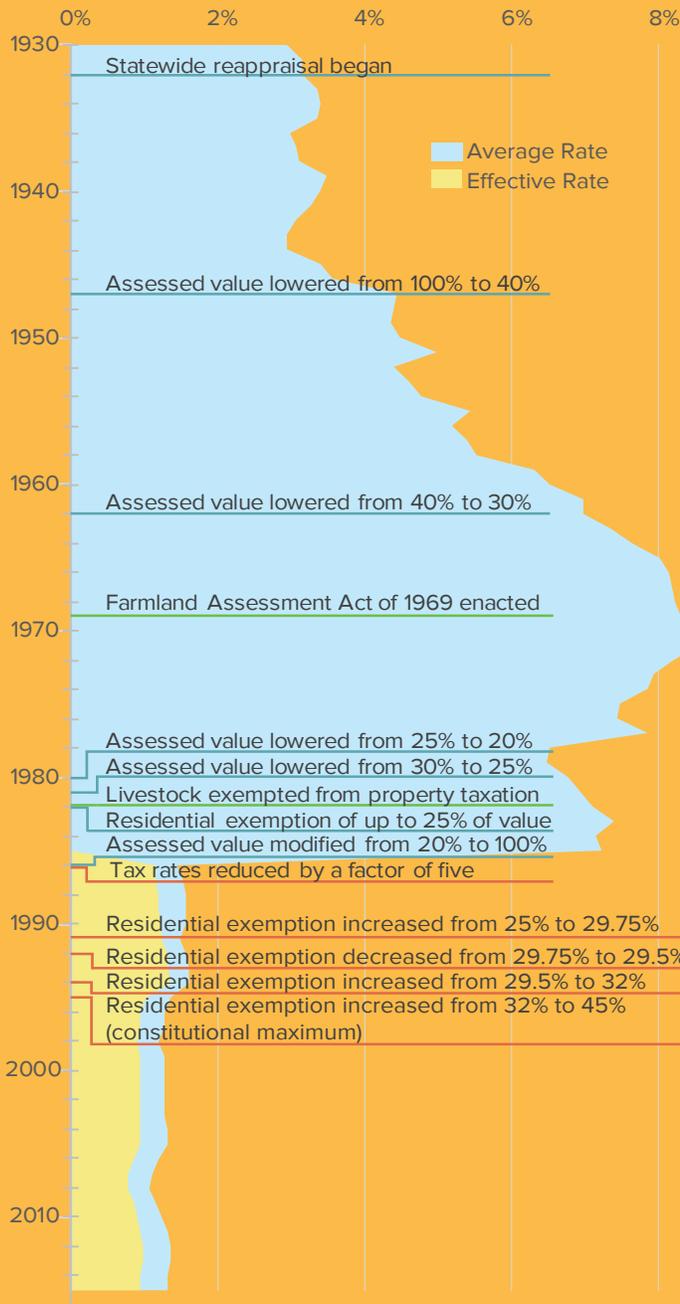


KEY FINDINGS OF THIS REPORT

- Utah’s property tax burden ranks 34th among states. The tax burden has been stable over time, both in terms of income and its ranking among states.
- Utah’s Truth in Taxation law appears to have prevented property tax revenues from increasing as quickly as property values.
- Revenues for school districts and special and local districts statewide have increased faster than inflation and population growth combined. By contrast, cities and towns have only been able to match population growth and inflation while county revenues have grown even more slowly.
- Residential property has a much more favorable tax status than business properties. Not only do residential homes receive a 45% discount, but residential taxpayers are also exempt from personal property taxes.
- Residential properties still provide nearly half of all property tax revenues.
- More than half of all property tax revenues go toward public schools.

Property taxes have been modified a number of times during the past century.

Figure 1: Brief History of Utah's Property Tax Changes



Source: Utah Office of Legislative Research and General Counsel.

BACKGROUND

Property taxes are among the most basic and oldest forms of taxation, dating back thousands of years and imposed in ancient civilizations from Egypt to China.

In the United States, property taxes date to the colonial era and are currently used in all 50 states. Utah began collecting property tax to help maintain public areas when it was still an unorganized territory in 1849. Since then, the state's property tax has undergone significant changes (see Figure 1). These changes have made the tax easier to enforce and maintain.

Like many Western and Sun Belt states, Utah has relatively low property tax rates. Generally speaking, higher rates can be found in the Midwest and Northeast, and in various states that lack income or sales taxes.

Property taxes are levied on individual or business property owners. The amount collected is based on a valuation process performed each year by counties and the Utah State Tax Commission. Once they determine appropriate property values, counties collect and redistribute tax revenues to governmental entities. Each year, the tax is determined through Utah's Truth in Taxation law (see Truth in Taxation discussion below).

PROPERTY TAX BURDEN

Utah Foundation measures the impact taxes have on Utahns by analyzing their tax burden. The tax burden essentially reports how many dollars Utahns spend on taxes for every \$1,000 earned. Utah's current property tax burden is \$25.27 per \$1,000 of personal income, near its long term average of \$26.24 per \$1,000 of personal income. From 1993-2015 (the latest data available), Utah's property tax burden has been one of the most stable tax burdens, ranging between \$24.14 and \$29.45 per \$1,000 of personal income.

Utah's tax burden ranks 34th among states. Historically, Utah's property tax burden has ranked among the mid-thirties.

Source: Utah Foundation calculations based on U.S. Census Bureau data.

What Property is Taxable?

Not all types of property are taxable. For example, among the types of personal property owned by an individual, only personal vehicles are taxable. On the opposite end of the scale, all tangible property that belongs to a business is eligible for taxation. For example, a refrigerator purchased by an individual for personal use would be exempt from tax. However, if a business purchased the same refrigerator, it would be subject to property taxes. See the sidebar for a list of property types that are exempt from taxation or are taxed under an alternative form of valuation.

Among the most significant of these is the 45% exemption to the value of primary residences. In other words, only 55% of the value of most Utah homes is taxed. The household impact of this exemption is detailed in Figure 2.

Primary residency is determined by how much time is spent at the residence. In Utah, the determining factor for primary residency is whether any individual lives at the property for at least 183 consecutive days (approximately six months and one day).¹

The primary residence exemption has a major impact on revenues generated from property tax. Because of the 45% exemption for residences, the state generates \$1.3 billion less than if residential properties were taxed at 100% of their market value.

Under Utah's constitution, intangible property owned by corporations cannot be taxed as long as the corporations pay income tax. Intangible property could include property such as computer software, patents, inventions, trade secrets, copyrights, trademarks, franchises, studies, forecasts, customer



EXEMPTIONS AND REDUCED TAX BURDENS IN UTAH

Taxed at 55% of market value:

- Primary residences

Exempt from tax:

- State property
- Public library
- School district
- Political subdivision, i.e. cities and counties
- Places of burial (not used for private or corporate benefit)
- Nonprofit entities, if used exclusively for religious, charitable, or educational purposes
- Intangible property
- Personal property associated with residences
- Merchandise inventory
- Farm machinery and equipment
- Livestock

Value calculated in a manner other than market value

- Federal Aviation Administration properties

Primary residences are taxed at 55% of their value, saving the median household owner thousands per year.

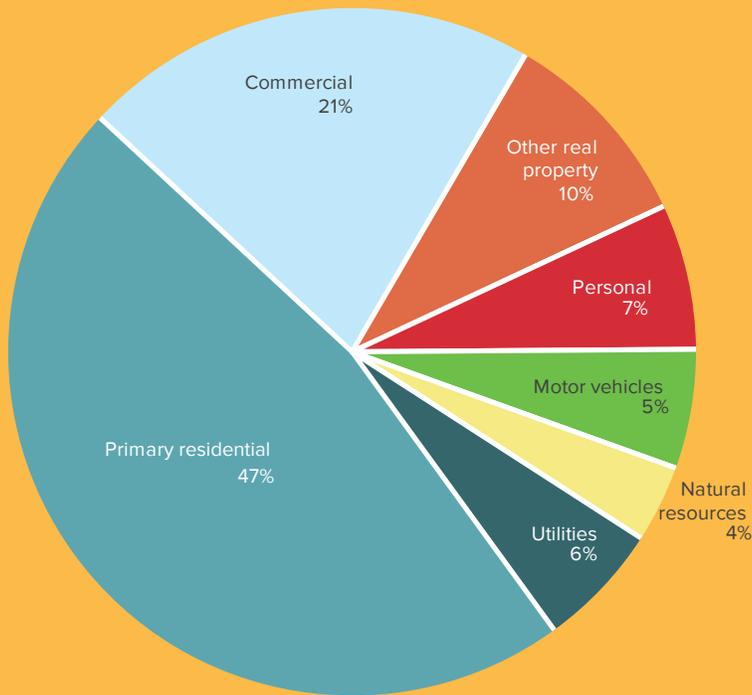
Figure 2: Illustration of 45% Exemption on Primary Residence

	Business	Home	Difference
Property value	\$270,000	\$270,000	\$0
Percentage of annual taxable	100%	55%	-45%
Taxable value	\$270,000	\$148,500	-\$121,500
Tax rate	1.68%	1.68%	0%
Tax revenue generated	\$4,530	\$2,491	-\$2,038

Source: Utah Foundation calculations.

Nearly half of all property tax revenue is from taxes on residential properties.

Figure 3: Property Tax Revenues by Source, 2016



Source: Utah State Tax Commission, Property Tax Division.

lists, technical data or other similar items. Essentially, intangible property is something that “derives its value not from physical attributes but its intellectual content.”

While intangible property is difficult to value, there may be a future need to reconsider the scope of the exemption as the modern world becomes increasingly reliant on software and algorithms.

Private improvements on federal lands are also taxable – by the federal government, which values property and collects the tax. A portion of these taxes is then returned to the counties within which these federal lands lay through a Payment in Lieu of Taxes program. In 2017, Utah was awarded \$40 million under this program.

Motor vehicles are classified as property, and as such, are subject to property tax. In the early 1990s, the state changed the method of taxing cars from value-based to age-based, and instituted a system known as fee-in-lieu. This means that taxes paid each year during car registration are not based on the value of the automobile, but the age. For other vehicles and trailers, the tax is dependent on the type of vehicle instead of the age. These funds are used primarily for roads. They are collected by the state, but used for state and local projects.

How is Property Assessed?

In order to tax property fairly, it must be valued accurately. As Utah is a nondisclosure state, no information on the sale of property, public or private, is required to be on the public record.

In other words, when a person sells a home, the total value paid for the home does not have to be reported to the government. Because of this, county assessors have had to be creative in collecting the data they need to accurately assess properties.

Assessing is primarily done at the county level. Smaller counties typically perform estimated property-by-property analyses. In this way, value is determined by the age, size, location and other property characteristics. Larger counties perform an entire county analysis. For example, Salt Lake, Weber and Davis county assessors determine a baseline value – or a sample house. The respective values of the other properties are then adjusted to match. This is done using statistical modeling programs based on the characteristics of the properties.

Assessors also need to account for items such as furniture and equipment which are included in any commercial valuation – but not residential valuation.

However, sometimes properties expand beyond county lines. Properties that cross county boundaries are designated as “centrally assessed properties,” and are assessed by the Utah State Tax Commission. Centrally assessed properties also include mining properties, utilities, telecommunications infrastructure, transportation companies and any property owned by inter-county entities.

For example, Rio Tinto, parent company of Kennecott Utah Copper, owns property in multiple counties. This places it under the jurisdiction of the Utah State Tax Commission for valuation. After the commission conducts the property valuation, it informs counties of the value pertaining to each county.

WHERE DO PROPERTY TAX REVENUES GO?

The property tax in Utah has seen many changes since its inception in 1849. At that time, it was the only tax collected by the state. Since 1974 the State of Utah has not directly levied a property tax, although it statutorily remains able to do so.² As the state was able to diversify its tax base through the adoption of income and sales taxes in 1931 and 1933 respectively, property tax has become one of the primary funding sources for local governments such as counties, cities, towns, school districts and special and local districts.

School Districts

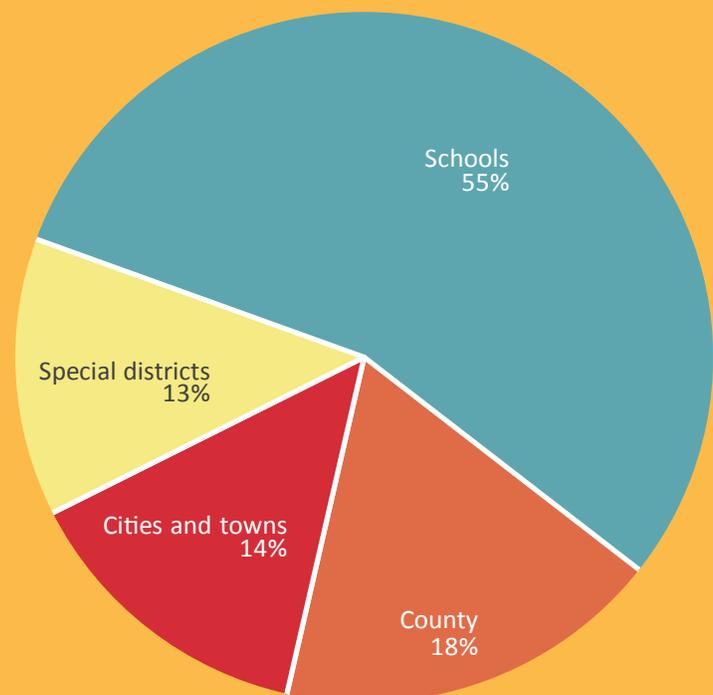
School districts receive a majority of property tax revenues. A large portion of school districts’ tax revenue – more than \$300 million – is required under the state’s basic levy law.³ However, school districts also receive more than \$700 million each year from voter-approved taxes and school board approved taxes. Portions of these taxes are guaranteed by the state to bring in a minimum amount of revenue. An additional \$600 million is provided by property taxes to cover debt payments on buildings and capital projects.

The Basic Levy. The basic levy is a property tax meant to help fund the Minimum School Program instituted by the Utah Legislature in 1974. School districts must collect the tax to participate in the program – which all districts do.

The Utah Legislature sets the tax rate each year. The rate is the same for every district. The counties collect these funds for the school districts within their boundaries, and then the state provides an additional amount to fund the Minimum School Program. Only one district needs no additional funds, and in fact sends some of its locally-generated funds to the state: Park City School District.⁴

More than half of property tax revenues go toward local schools.

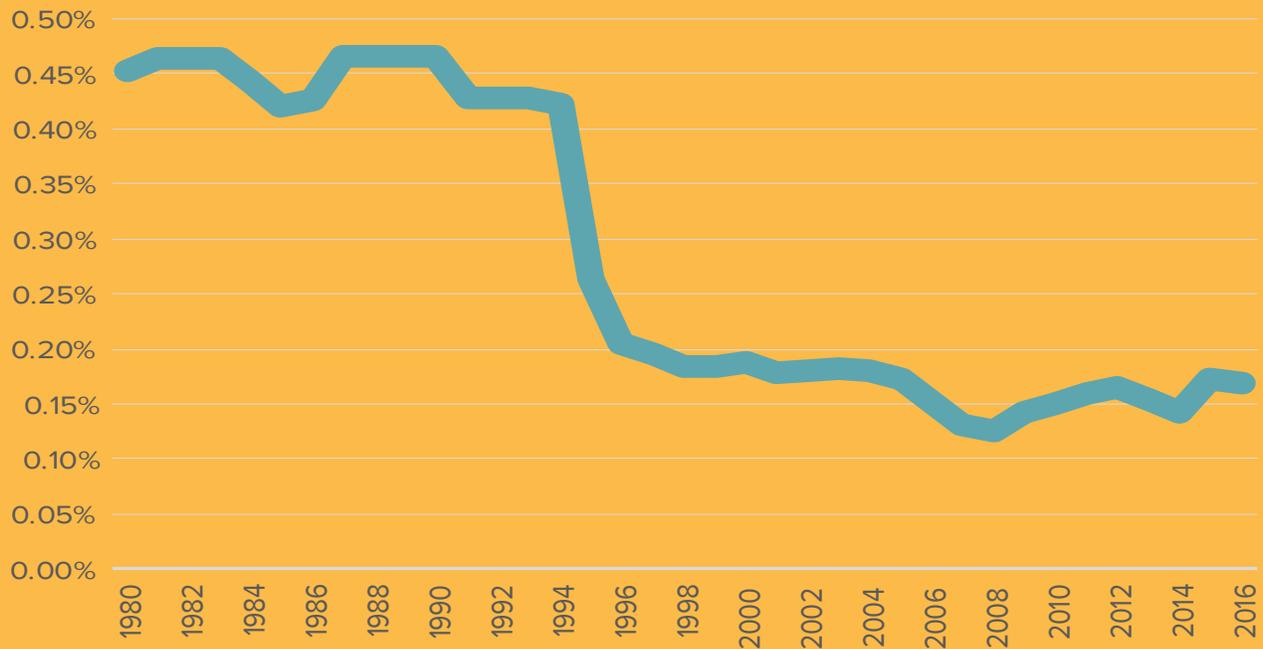
Figure 4: Distribution of Property Tax Funds Statewide by Receiving Entity



Source: Utah State Tax Commission, Property Tax Division.

The basic levy rate decreased sharply in the 1990s.

Figure 5: Basic Tax Rate from 1980-2016



Source: Utah Office of the Legislative Fiscal Analyst.

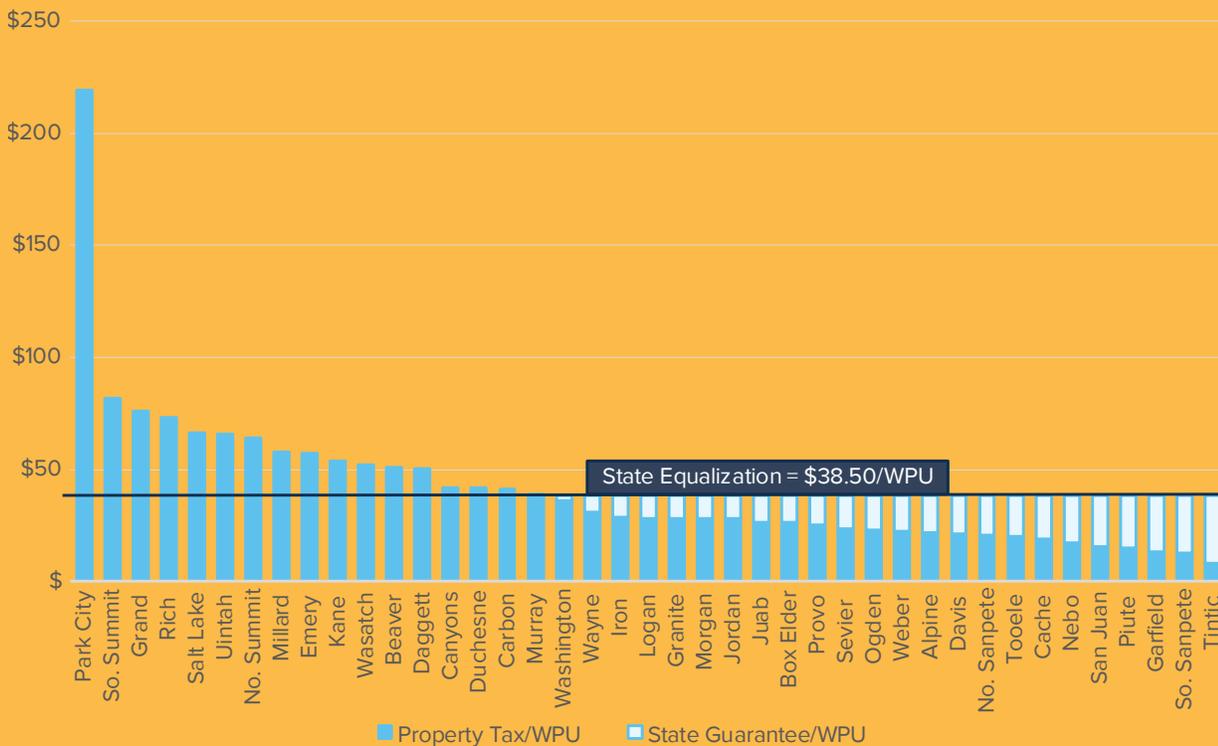
Figure 5 shows large cuts to the basic levy rate in 1994 and 1995. In 1996, the basic rate became subject to Truth in Taxation, which tends to put downward pressure on the tax rate. This explains the variability and downward trend of the rate following implementation.

While the rate has trended downward, in 2016, the Utah Legislature raised the property tax rate as a part of a school district equalization measure. This increase of the tax from 0.1419% to 0.1736% increased revenue for schools by \$75 million.

Other School Levies. School districts have a limit on the amount of property taxes they can collect. There are two different board levy limits that have been established on school districts: 0.18% and 0.25% for instructional purposes. These limits are based upon the rates that districts levied at the time the Legislature set the limits. Because property values vary widely by district, the Legislature sets a minimum amount of revenue each year that must be generated by the first 0.16%, which was \$616 per weighted pupil unit (WPU) in the 2016-2017 school year. WPU is essentially the amount allotted for each student in attendance. To the degree that school districts adopt these taxes, they are guaranteed a minimum amount of funds. If the revenues generated from the local property tax base do not meet the minimum guaranteed amount, the state supplies the missing funds.

The majority of districts receive state funds to meet the minimum amount of revenue generated for each tax increase.

Figure 6: Board and Local Levy Equalization as of FY 2017 (est.)



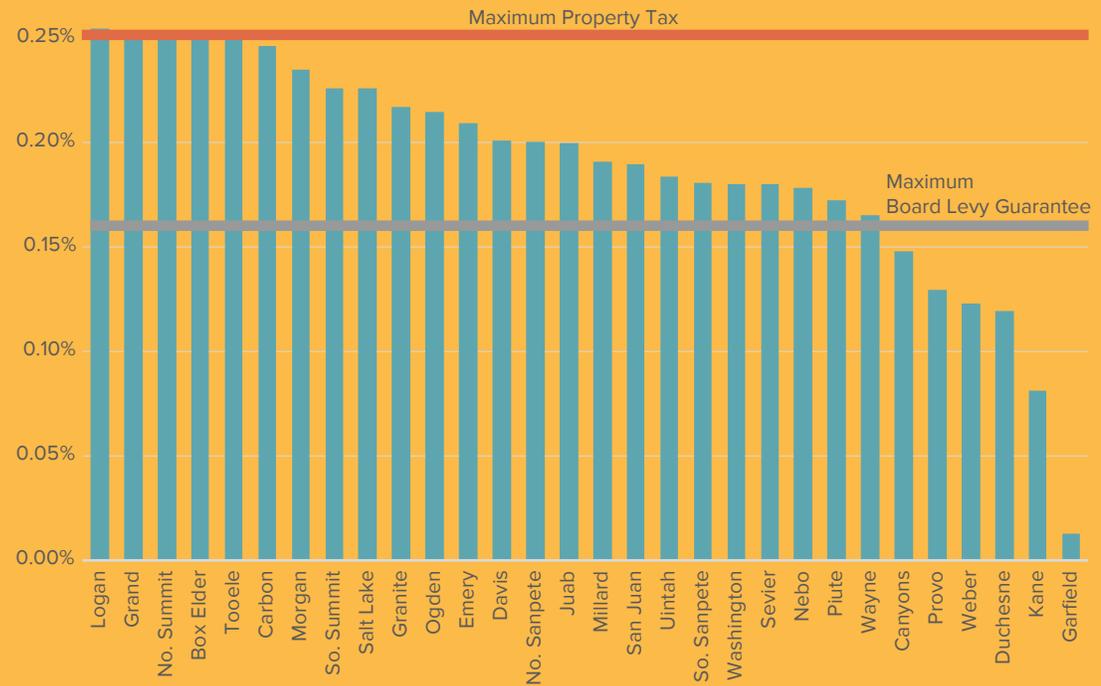
Source: Utah Office of the Legislative Fiscal Analyst.

As seen in Figure 6, 17 school districts can meet the minimum threshold through their local tax base while the remaining 24 districts require state assistance to meet the minimum established by the Legislature.⁵ In addition, voters in local districts can also approve property taxes up to 0.04% that are also guaranteed to meet the state minimum, which was \$154 per WPU in the 2016-2017 school year.⁶

Underutilization of School District Levies. Currently, few districts take full advantage of the state guarantee. This is true of voted local levies and board levies. As shown in Figures 7 and 8, none of the 0.18% school districts are taking full advantage of state matched funds. Although most of the 0.25% school districts are meeting that bar, only a handful of districts have raised their levies to the statutory limit.⁷ This means that Garfield County, for instance, would increase its school funding by \$2,270 per WPU (\$782 from local revenues and \$1,488 from the state match) if it increased its property tax rate to 0.16% – the maximum level guaranteed by the state. In other words, many of these districts could generate substantially more funds for their schools with a fairly minimal impact to local property owners.⁸

Schools utilize the board levy rates at varying levels.

Figure 7 and 8: Current, Maximum, and Matching Board Levies in 2016, by District



Source: Utah State Board of Education and Utah State Tax Commission.

Special and Local Districts

Special and local districts are local authorities set up to handle specific tasks within given areas. These tasks are often funded with property tax revenue.⁹

One example of a special district is the Trans-Jordan Landfill. Sandy and West Jordan cities created the district with Kennecott Copper which owned the land. Since then, numerous additional Salt Lake Valley cities joined the district to use and manage the landfill.¹⁰

Special districts can accommodate any number of services within the district, from street lights to emergency services to correctional facilities. In contrast, local districts can only have up to four different services. Figure 9 details those services that special districts offer, in contrast to local districts.

Local Governments

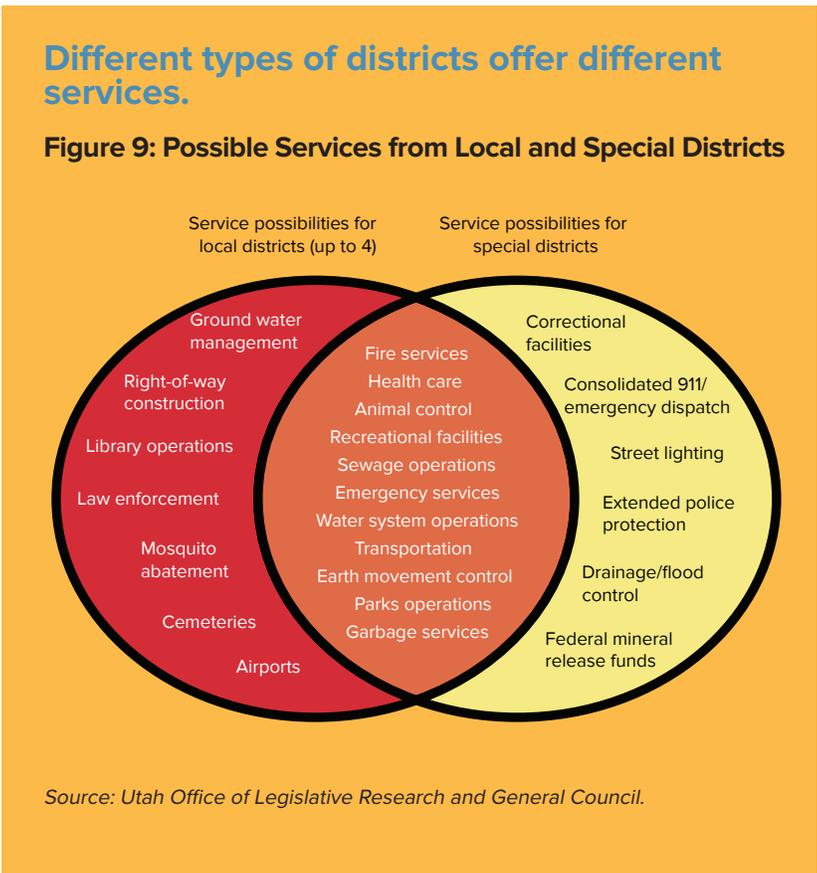
In addition to special and local districts, the property tax is also one of the primary methods of funding city and county operations and their day-to-day functions. These include law enforcement, libraries, parks and recreation, transportation, animal control, health care services and other services.¹¹ While cities and counties do have access to other tax revenues, such as the sales tax, transient room tax, franchise tax and others, these taxes can fluctuate widely based on economic conditions. The property tax, however, provides a substantial, very stable revenue source on which cities and counties can rely.

County property tax rates vary from 0.50% in Sevier County to 0.07% in Summit County, with a statewide median rate of 0.20%. However, rates alone do not tell the full story. While Summit County property tax rates are seven times lower than those of Sevier, Summit's high property values generate nearly twice as much in revenues – \$12 million to Sevier County's \$6 million.

Cities also have a wide range. Seven municipalities in Utah, such as Moab City, collect no property tax, while Sunnyside City had a property tax of 0.7%. The median city/town levied a 0.15% property tax. As with counties, the revenues vary widely based on local property values.

TRUTH IN TAXATION

In the early 1980s, citizens expressed increasing discomfort with the way the local governments levied property taxes. From the mid-1970s until the mid-1980s, assessed property values had increased rapidly – an average of 13% per year. (Utah has not seen such a decade since, with the second highest performing 10-year period being 1999 to 2008 with an average of 9% annual increase in property values.) Property tax collections had been rising nearly as quickly despite policy changes lowering the assessed value from 30% of fair market value to 20% and completely



exempting livestock from the property tax.¹² In many cases this left local governments with a windfall as tax revenues increased much faster than the actual cost of governance and local services. This situation also raised questions about transparency and accountability, as local governments could bring in more cash without having to justify it to the citizens they served.

The 1985 legislation, HB 388, “The Tax Increase Disclosure Act,” aimed to solve both problems. First, it switched the property tax from a rate-based tax to a revenue-based tax, preventing windfalls. Second, it mandated a higher level of community engagement if entities did desire to raise property taxes.¹³

This legislation is today commonly referred to as Truth in Taxation. On the face of things, it was quite successful in limiting how quickly property tax collections could increase. In the decade prior to the legislation, revenues increased 12% annually. In the decade after the legislation, revenues increased 4% annually. In fact, since the legislation passed, there has never been a 10-year period that exceeded 7% annual revenue increases. The legislation also ensured transparency. It required advertisements in local newspapers, notifications mailed to local property owners, and public meetings where concerned citizens and local leaders discuss together the financial needs of the area.

Other major taxes in Utah such as sales and income taxes are rate-based. They have a rate that does not change from year to year unless the state or local government takes a specific action to alter it. As a result, the amount of revenue generated by the fixed rate can vary widely from year to year depending on economic conditions. Revenue-based taxes, on the other hand, have stable revenue from year to year (unless the state or local government takes a specific action to alter it) while the rate fluctuates based on economic conditions.

An example of this process for the median property value in Salt Lake County in 2017 is shown in Figure 10.¹⁴ In 2013, that property was worth \$194,700 and taxed at a rate of 1.6776%, resulting in \$1,796 of tax revenue.¹⁵ If none of the local entities had raised taxes between 2013 and 2017, that property would still be generating \$1,796. While the value had increased to \$270,000 by 2017, the tax liability would have remained constant while the tax rate would have been automatically adjusted down incrementally each year.

Utah’s property tax maintains revenue and lets rates fluctuate.

Figure 10: How Property Tax Revenue Would Change, Assuming No Tax Increases

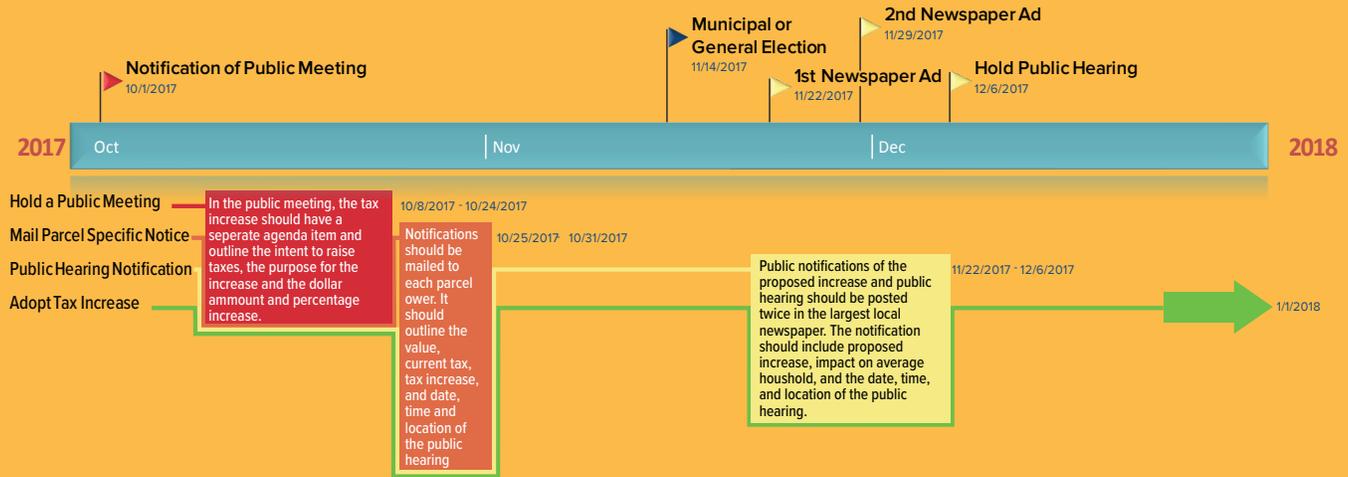
	2013	2017	Change
Property value	\$194,700	\$270,000	\$75,300
Tax revenue generated	\$1,796	\$1,796	\$0
Tax rate	1.68%	1.21%	-0.47%

Source: Utah Foundation calculations.

In theory, Truth in Taxation dictates that the property tax should generate the same revenue every year. However, there are two ways revenues can change. The first is that any new growth (like a new subdivision) would be taxed at the current rate, theoretically allowing growth in revenue commensurate with the new services required by the new subdivision. The second way to increase revenue would be to increase the tax rate (or even just leave it the same) by going through the Truth in Taxation process.

How does the Truth in Taxation process work?

Figure 11: Sample Timeline, Truth in Taxation



Source: Summit County Auditor's Office

The Process

The key element in the raising of property tax rates is the Truth in Taxation process. Every entity must follow this process in order to change the tax rate. The process is straightforward, but requires that entities follow a timeline and provide information to be distributed in a certain way.¹⁶ There are also expenses involved. Newspaper advertisements can cost thousands of dollars and many districts find individualized notifications for all property owners burdensome. Figure 11 shows an approximate calendar which entities must use to follow Truth in Taxation.¹⁷

Does Truth in Taxation Stunt Revenue Growth?

In recent years, there has been increasing concern that Truth in Taxation inappropriately stunts revenue growth. For instance, the Salt Lake Chamber of Commerce has suggested modifying the current Truth in Taxation requirements to account not only for new growth, but also inflation.¹⁸

In addition, the Legislature's Interim Revenue and Taxation Committee in 2017 examined ways to curb the eroding effects of Truth in Taxation to raise more funding for education. It proposed a "freeze" on the current basic levy, essentially exempting the state from the Truth in Taxation process when calculating how much districts should charge residents for the minimum basic levy. Depending on the growth of local property values, this would bring compounding new revenues that over the course of five to 10 years could increase funds available to education by as much as \$750 million.¹⁹

The committee examined other property tax changes to increase the maximum amount school boards can tax for board and voter levies. In addition, the committee discussed the possibility of increasing the amount of money guaranteed for the board and voter levies to match the amount generated per 0.01% in the second-highest revenue-generating district.²⁰

The Legislature's 2018 session could yield changes along these lines.

While the process for navigating through Truth in Taxation is straightforward, many entities have gone many years without holding Truth in Taxation hearings. In many cases, property tax revenues may have continued to be commensurate to local needs. However, public officials often worry that publishing they are recommending a tax increase and subjecting themselves to public feedback could inspire citizen backlash.²¹

This leads to additional problems in how some districts, specifically cities and counties, raise funds. Rather than go through the Truth in Taxation process, some cities have begun charging fees for certain services that are above and beyond the true cost of the service provided. These excess funds are put into the general fund for the entity, essentially supplanting property tax revenues.²²

Some have argued that there would be less citizen opposition to tax increases under the Truth in Taxation if the process were used on a regular basis in which the increases occurred gradually.²³ Officials would more regularly hold public hearings and communicate the importance of any proposed tax increases – which was the original intent behind the law.²⁴ One reason tax rates are not incrementally increased to match inflation is because the cost of going through the process. The Truth in Taxation process requires newspaper ads of a certain size that can cost tens of thousands of dollars, a requirement that may become increasingly anachronistic in an age of digital communications.²⁵ There is also the amount of time public officials must spend on the process as well as the potential political risks. In the face of these challenges, a small, gradual increase in tax rates might not seem worth the effort.

By making property tax rates revenue-based, Truth in Taxation provides local entities an extremely stable revenue source. On the other hand, some officials worry that this approach fails to adequately account for inflation.

A Utah Foundation analysis of the past three decades found that, on the contrary, property tax revenues have outpaced the revenue growth needed to accommodate inflation and Utah's population growth combined. (See Figure 12.)

However, when broken out among school districts, special and local districts, cities, towns and counties, different types of local entities are doing better than others.

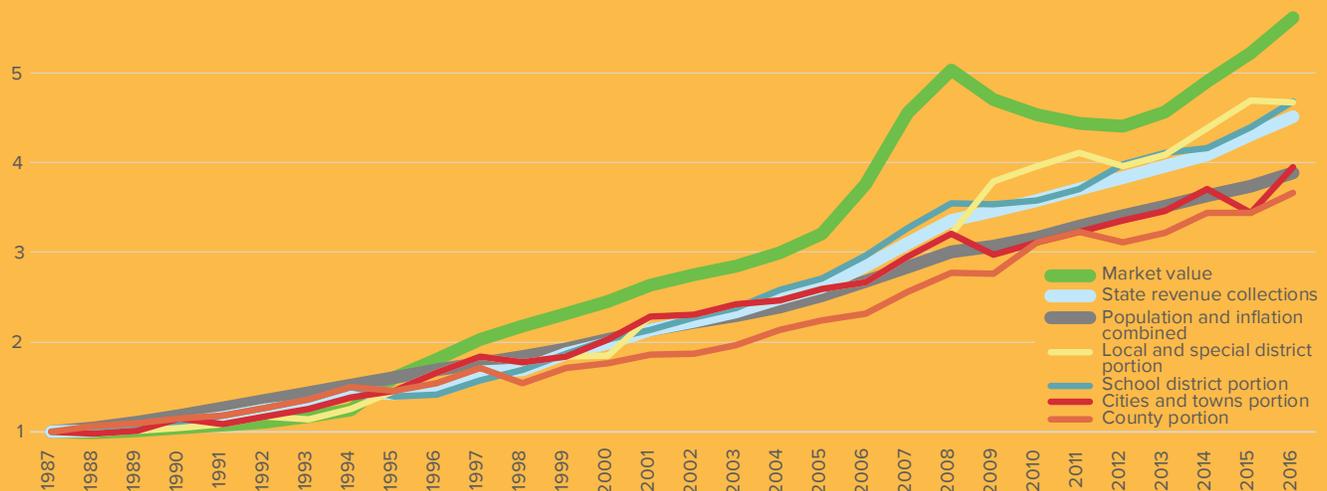
Rough estimates show that school districts and special and local districts have been able to grow their revenues faster than inflation and population growth, especially during the past decade. However, cities and towns have only been able to match population growth and inflation while county revenues have grown even more slowly.

When looking at areas that have outperformed population growth and inflation, there are two possible explanations. The first is straightforward: Truth in Taxation is working as designed. It decouples tax revenues from growth in property values while allowing local entities sufficient flexibility to raise taxes to meet their needs, including the cost of inflation.

An alternative explanation might be that the new growth that occurs in real property increases at a faster rate than the population growth of the state overall. If this is the case, it is likely that areas where there is a lot of new growth occurring would have enough tax revenues to support the local government, but more stable areas with a minimal amount of new growth must rely solely on raising taxes to cover the rising costs that come with inflation.

Utah's overall property tax revenues have outpaced population growth and inflation combined, but not all classes of recipients have matched that growth.

Figure 12: Cumulative Property Tax Revenue Growth Compared to Market Value and Combined Population and Inflation Growth, Indexed at 1987



Source: Utah State Tax Commission, Utah Foundation calculations.

However, it appears to be more difficult for cities, towns and counties to take action to meet the costs of population growth and inflation.

The potential political ramifications of raising taxes can encourage local governments to raise taxes in a sharp and intermittent manner. Rather than raise taxes gradually as needed, local governments may wait until additional revenues are urgently required, and then raise taxes higher than needed to ensure they would not need to raise taxes again in the near future.

Proponents of Truth in Taxation claim that local governments need to “grow a backbone” and raise taxes to meet their needs. But some local officials told Utah Foundation they would like to see inflation automatically included in the calculation of the annual certified tax rates, if even at a minimal rate, to relieve political pressure on local elected officials. They would then have to justify to local citizens any other new tax increases solely on the merits of the accompanying new services provided by the local government.

Finally, although school districts and local and special districts in general have used the Truth in Taxation process to raise revenues faster than population growth and inflation combined, determining whether such revenue increases are adequate is a more difficult question. Statewide analyses do not account for local trends and changing needs. Ultimately, it is up to governments and citizens at the local level to decide what services are necessary and how to cover the costs.

These results suggest that Truth in Taxation is striking a good balance of preventing government revenue windfalls while providing enough flexibility for local governments to adequately account for both population growth and inflationary costs among at least some types of local governments.

CONCLUSION

Utah's property tax burden is not particularly high, ranking 34th among states. While more than half of property tax revenues go toward schools, it also remains a critical source of funding for cities, counties and other local taxing districts. Using this very stable revenue-based tax, local governments can make detailed financial plans for the future. As a time-tested, fundamental source of funds for local government, the property tax is not going away.

Yet, some of the parameters for imposing the tax could change. The State Legislature could take actions to secure additional funding for K-12 education by “freezing” the tax rate of the basic levy. Additional changes might seek to address inflationary pressures over time, rather than simply relying on new growth for additional revenues.

But policymakers should tread carefully in considering changes to the state's property tax parameters.

On the one hand, Utah Foundation found that Utah's property tax reforms in 1985 were effective in de-linking property tax revenues from the growth in property values; it also appears that overall collections have still outpaced population growth and inflation combined. On the other hand, when broken out by class of recipient, the results vary. It appears that revenues for school districts and local and special districts have been increasing faster than population growth and inflation, while cities and towns have only been able to match population growth and inflation – and counties have consistently underperformed.

These results suggest that Truth in Taxation is striking a good balance of preventing government revenue windfalls while providing enough flexibility for local governments to adequately account for both population growth and inflationary costs among at least some types of local governments. However, with county revenues consistently increasing slower than growth and inflation combined, modifications to Truth in Taxation might be worth considering.

In the meantime, governments and citizens at the local level must actively decide how much property tax revenue is necessary to pay for services and infrastructure.

ENDNOTES

- 1 Utah Code Annotated Sec. 59-2-103(3), <https://le.utah.gov/xcode/Title59/Chapter2/59-2-S103.html>.
- 2 Leishman, Ben, Fiscal Analyst at Utah’s Office of the Legislative Fiscal Analyst, Personal Interview, 3 January 2018.
- 3 Utah Code Annotated Sec. 59-2-902, <https://le.utah.gov/xcode/Title59/Chapter2/59-2-S902.html>.
- 4 Leishman, Ben and Jill Curry, Fiscal Analysts at Utah’s Office of the Legislative Fiscal Analyst, Personal Interview, 5 September 2017.
- 5 Leishman, Ben and Legislative Fiscal Analysts, State of Utah, “Equalization Charts FY2017” 2017.
- 6 Leishman, Ben and Jill Curry, Fiscal Analysts at Utah’s Office of the Legislative Fiscal Analyst, Personal Interview ; Utah Code Annotated Sec. 53A-17a-133(4)(b), https://le.utah.gov/xcode/Title53A/Chapter17A/53A-17a-S133.html?v=C53A-17a-S133_2017050920170509; Utah Code Annotated Sec. 53A-17a-134(1), <https://le.utah.gov/xcode/Title53A/Chapter17A/53A-17a-S134.html>.
- 7 Utah State Board of Education and Utah State Tax Commission, “Estimated Assessed Valuations and Final Approved School District Tax Rates,” 2016. Calculations by Utah Foundation.
- 8 Utah State Board of Education and Utah State Tax Commission, “Estimated Assessed Valuations and Final Approved School District Tax Rates,” 2016. Calculations done by Utah Foundation.
- 9 Utah Legislative Research and General Council, “Limited Purpose Local Governments: A Closer Look at Utah’s Lesser-Known Local Governments”, 2017, https://le.utah.gov/lrgc/briefings/LPLG_Policy_Brief_June_2017.pdf.
- 10 Trans-Jordan Cities, “About Us,” 2017, <http://transjordan.org/about/>.
- 11 Utah Legislative Research and General Council, “Limited Purpose Local Governments: A Closer Look at Utah’s Lesser-Known Local Governments”, 2017, https://le.utah.gov/lrgc/briefings/LPLG_Policy_Brief_June_2017.pdf.
- 12 Economic & Statistical Unit of the Utah State Tax Commission, “History of the Utah Tax Structure,” 2017, <https://tax.utah.gov/esu/history/history.pdf>
- 13 State of Utah, “Laws of Utah, 1985: Regular Session” p. 207-210.
- 14 Zillow.com, “Salt Lake County Home Prices & Values,” 2017, www.zillow.com/salt-lake-county-ut/home-values/.
- 15 Salt Lake County Assessor, “Parcel Characteristics,” 2017, http://slco.org/assessor/new/detailNew.cfm?parcel_id=27271780100000&nbhd=28&pa=.
- 16 Summit County Auditor’s Office, “Calendar Year Truth in Taxation Plan,” 2017.
- 17 Ibid.
- 18 Parker, Michael, Vice President of Public Policy, Salt Lake Chamber, Personal Interview, 16 November 2017.
- 19 Stephenson, Howard, “Revenue and Taxation Interim Committee Discussion,” 27 November 2017.
- 20 Ibid.
- 21 Property Tax Working Group, “Property Tax Working Group Discussion,” 7 September 2017.
- 22 Ibid.
- 23 Ibid.
- 24 Ibid.
- 25 Ibid.



UTAH FOUNDATION

RESEARCH • ANALYZE • INFORM

150 S. State St., Ste. 444
Salt Lake City, Utah 84111
utahfoundation.org

T H E E S S E N T I A L T A X
PROPERTY TAXATION IN UTAH