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THE UTAH TAXPAYER

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2009 Property Tax Report

Total property tax revenues in Utah will reach $2.55 billion in 2009, up 5% from 2008, according to calculations by the Utah Taxpayers Association based on data from the Utah State Tax Commission.

Your Taxpayers Association estimates property tax revenues for each year based on Tax Commission data. The official Tax Commission Annual Report is not released until late summer in the following year. The Association's estimates are typically within 1% of the Tax Commission's official figures released in the following year.

If automobile fee-in-lieu (FIL) estimates are excluded and only real and personal property are included, association estimates are usually within 0.5%. These estimates are based on property taxes *charged*, not collected. Over time, property taxes charged and property taxes collected are equal because certified tax rates are increased to offset delinquent payments.

2008 Actual and 2009 Estimate Property Taxes (in billions)

	2008	2009	% Change
Total Property Tax Revenue	$2.43	$2.55	5.20%
Total excl FIL	$2.23	$2.36	5.70%
Taxable valuation excl FIL	$211.91	$202.23	-4.60%
Effective Tax Rate excl FIL	1.05%	1.17%	11.20%

Source: 2009 values are Utah Taxpayers Association estimates based on Tax Commission data. 20008 values are Tax Commission actuals.

The accompanying table summarizes anticipated property tax revenues for 2009 and actual property taxes for 2008.

In recent years, annual property tax revenue growth has consistently been between 4% and 10%, even during times of volatile changes in the Utah real estate market. Property tax revenue growth has been in line with personal

(2009 Property Tax Report Continues on Page 7)

Utah Taxpayers Association Pre-Legislative Conference

January 19, 2010
2:00 pm – 5:00 pm
Capitol Building- Room 445

Come listen as Legislators and opinion leaders discuss the issues that will be facing the state during the 2010 session of the Utah Legislature. There is no fee to attend, but please reserve your spot by calling (801) 972-8814 or by emailing fallon@utahtaxpayers.org.

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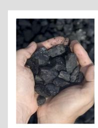

Association President
Howard Stephenson

Ogden Standard Examiner

"What a mess UTOPIA has become. The perpetually in development, money-losing deal to bring a fiber-optic network to Utah communities has caused nothing but problems for residents who signed on to the bad deal. It's embarrassed local public officials who feel locked into a commitment they obviously wouldn't sign today."

Deseret News

"It turns out UTOPIA can't even predict what the current market will bear. Utahns are willing to pay for DSL and other high-speed services that come at a reasonable cost. But high-stakes investments in new technology belong best in private hands. If private investors are wrong, they disappear into the night."

Davis County Clipper

"The UTOPIA project seems more like the boulevard of broken dreams — the victim of ramped-up expectations, poor financial decisions, lack of oversight, hampering lawsuits, widespread competition and leapfrogging technology."

Salt Lake Tribune

"Utopia, the ill-starred fiber-optic network in which 10 Utah cities are enmeshed, is hemorrhaging cash. Those cities already are on the hook for millions of dollars in pledges of sales tax revenues to back the system's debt. Utopia could begin to call on those pledges just as cities face budget crises caused by the recession."

My Corner: UTOPIA Cities Ought To Cut Their Losses

You may have noticed a lot in the media last month about UTOPIA, the 11-city, thrice-failed soviet-style fiber-optic network which after 6 years has budgeted an operating deficit of $24.6 million this year. Some of the news stories carried accusatory words from UTOPIA supporters about your Taxpayers Association which begs a response. Characterizing the comments are those from UTOPIA's President who, rather than arguing facts, simply called the Utah Taxpayers Association "liars and charlatans." But six years of empty Utopian promises have already proven who the charlatans are.

The failure of UTOPIA is evident after two successive bond packages totaling $201 million, and a third bond package which places up to $503 million of city sales tax dollars in jeopardy, the first of which will, by UTOPIA's own admission, be called upon soon. In addition, UTOPIA's own budget anticipates a $24 million operating deficit this year, and has never come close to breaking even in their operating budget. For all that spending, they have approximately 15,000 paying customers.

UTOPIA's inept business practices are staggering. Expecting that consumers would sign up for their services by the droves, UTOPIA purchased millions and millions of dollars of electronics equipment with a very short life span. Now that those customers never came, that electronics equipment is useless and virtually worthless; much of it UTOPIA now uses to separate cubicles in their offices.

In addition, UTOPIA has buried miles and miles of feet of useless fiber optic cables. They structured their construction contracts on a per foot basis. Unsurprisingly, some of the contractors cared little about whether the cables connected to anything. They were paid to lay lots of fiber optic cables; whether or not that fiber was useful was a concern neither of builders nor of UTOPIA. Hence, several UTOPIA cities have miles of cable unconnected to itself or to an outside network.

UTOPIA's President is known for using football analogies in his pep talks with would-be UTOPIANS. So I will use one here. The former UTOPIA President was so sure of UTOPIA's success that in the early years he and other staff members traveled the world touting the UTOPIA world-class fiber optic system, which is akin to dancing in the end-zone before the kick-off.

We have argued from the outset that government has no business of being in the business of business. That when public officials risk taxpayer capital in competing where the private sector already provides services, taxpayers are bound to lose every time. If the service can be found in the yellow pages, government ought to butt out.

For some reason many otherwise intelligent elected officials fail the economics 101 exam. They don't believe that if there's money to be made, the private sector will provide the service, and to the extent that customers are willing to pay the costs of improved levels of service, the private sector rushes in. Some UTOPIANS have actually accused private companies such as Comcast and Qwest of miserly withholding services from customers who are eager to pay for them! What UTOPIA's 11 member cities' fathers don't understand is that the law of supply and demand is as immutable as the law of gravity, and when we seek to ignore either law, people get hurt.

I've been toying with the idea of giving Nikita Kruschev awards to Utah public officials who try to implement socialism in their communities. Just because Kruschev *believed* the economic success of socialism would bury capitalism, doesn't make him any more right than the UTOPIA leaders who *believe* the system will succeed with one more bailout. Apparently they didn't get the memo that the Berlin Wall fell in November of 1989 and that the Soviet's experiment in socialism failed. In essence, these city fathers are saying, "Well, they just didn't do it right, we know what we're doing, they didn't." Obviously.

I know by using this comparison I run the risk of complaints that I'm comparing UTOPIA leaders to the totalitarian mass murderers Stalin and Lenin, but I'm talking about the economic system of socialism, and the comparison is apt.

But the brightest news of the UTOPIA debacle is that out of 245 incorporated cities and towns, only 11 cities or 4% decided to drink the Kool-Aid. The rest rejected the proposal for what it was. That's a glass 96% full and ought to be celebrated.

So what ought to be done? UTOPIA member cities ought to cut their losses, pay their debts, and sell off what they own for the best price they can get. For UTOPIANS to persist in claiming that this can still work is like football fans seeing their team with 30 seconds left in the game, fourth down, on their own two yard line, trailing by 21 points, and still holding out hope they can win. Sensible fans would be headed to the parking lot.

Utah Business Climate: Ranked 10th Best In The Nation

How can a state attract more businesses and more jobs? The answer is simple: create an environment where businesses can succeed and be profitable. And with the United States Department of Labor reporting that most mass job relocations are from state-to-state, instead of from overseas, states have to be especially aware of how their business environment compares nationally and to neighboring states.

Fortunately, over the past four years Utah seems to have put this lesson into practice. A recent report by the Tax Foundation has concluded that Utah is one of the ten states most "conducive to new and expanding businesses." In addition, the report found that since 2006 Utah has improved its standing in the State Business Tax Climate Index, from 15th most friendly for business in 2006 to 10th most friendly in 2010.

However, with a looming budget gap and growing pressure to raise taxes to fill the hole, Governor Herbert and the Utah State Legislature are faced with the challenge of preserving Utah's strong business climate while balancing the budget. But, as the Tax Foundation stated in their 2010 State Business Tax Climate Executive Summary, "States with the best tax systems will have an advantage in attracting new businesses and generating economic and employment growth." Therefore preserving Utah's economic, business and job growth should remain the top priority of the Utah State Legislature, despite the short-term challenges of balancing the 2010 budget.

The Tax Foundation's report was designed to measure the business tax climate of each state. It divided 112 variables into five components: the Corporate Tax Index, Individual Income Tax Index, Sales Tax Index, Unemployment Tax Index and Property Tax Index. Each of the five component indexes included a variety of unique variables, but all five evaluated the tax rate, structure and base of their relative taxes.

The Corporate Income Tax Index gave high scores to states with flat tax and single rate systems and evaluated other factors such as tax credits and gross receipts tax deductions. The Individual Income Tax Index focused on each state's rate and base, but further evaluated top tax rates and graduated rate structures. Local option taxes were added to the tax base and rate evaluations in the Sales Tax Index. The Unemployment Insurance Tax Index evaluated each state's methods of charging previous employers for unemployment benefits. Finally, the Property Tax Index included capital stock tax rate assessments and personal property taxes. The accompanying table shows the scores of Utah and its neighboring states for 2010.

Utah ranked among the top 25 percent of states in three out of five categories. In the Property Tax Index Utah ranked second only to Wyoming, and was closely trailed by Idaho and Arizona which ranked third and fourth, respectively. In addition, Utah ranked as the sixth best state in the country in regards to the Corporate Income Tax Index. Out of all of Utah's neighbors, Arizona had the worst overall ranked, coming in at twenty-eighth. New Mexico was also poorly ranked with an overall score of twenty-three and a Sales Tax Index ranking of forty-two.

There is no doubt that taxes are critical in the growth and success of a business. Therefore, companies will locate where they can find the greatest tax benefits and competitive advantage. As the Utah Legislature considers the best methods for closing the budget gap, they must keep in mind that new taxes: especially on business, only hurt long-term growth. The short-term solution of tax increases won't lead to long-term economic stimulation and improved opportunities for Utah business.

Since 2006 Utah has improved its standing in the State Business Tax Climate Index, from 15th most friendly for business in 2006 to 10th most friendly in 2010.

States with the most business-friendly tax environments will have the greatest opportunity to attract new business, new jobs and the inherent economic growth. Utah must retain its business-friendly environment and continue on the path to greater economic development.

State Business Tax Climate Index, Utah and Neighboring States, FY 2010

	Overall Rank	Corporate Income Tax Rank	Individual Income Tax Rank	Sales Tax Rank	Unemployment Insur. Tax	Property Tax Rank
Utah	**10**	**6**	**12**	**28**	**24**	**2**
Arizona	28	22	23	46	2	4
Colorado	13	12	16	31	20	6
Idaho	18	17	29	12	48	3
Nevada	4	3	1	44	42	14
New Mexico	23	32	19	42	19	1
Wyoming	2	1	1	15	27	35

Source: Tax Foundation Report, September 2009

Utah Taxpayers Legislative Committee Meetings

The Utah Taxpayers Association will be holding legislative committee meetings during the legislative session every Thursday at 7:00 am, in the Seagull Room at the south end of the Capitol cafeteria located in the east annex building. These meetings are open to all members of the association and will begin on January 28th and will continue through March 4th. We will discuss the progress of bills of interest, provide updated legislative watchlists and answer questions about the legislative session. Please join us on Thursdays at 7:00 am.

To view the current 2010 legislative watchlist, visit www.utahtaxpayers.org.

Don't Eliminate Utah's Vendor Discount

With tax revenue continuing to slide, taxpayers are worried about how the 2010 Legislature will balance the state's budget. Governor Gary Herbert's proposed budget avoids a general tax increase, but many in and around the Legislature are pushing for various tax increases. One tax increase that has already attracted significant attention would eliminate the "vendor discount" retailers receive for collecting sales taxes. This $20 million "fix" is a bad idea, because it only increases pressure on Utah's already struggling retail economy.

In 1992 Representative Marty Stephens ran H.B. 338. It requires retailers with $50,000 or more in annual sales tax collections to remit the sales tax on a monthly basis, rather than a quarterly basis. In exchange for taking this "float" away, the Legislature provided a small amount of compensation (1.31% of the taxes collected) to partially compensate them for the administrative and regulatory burdens of colleting this tax for the State. The vendor discount proposal would end this 1.31% vendor compensation to retailers who are really just acting as tax collectors for the State of Utah.

Table 1: Sales Tax Collection- The Cost of Credit Cards

Annual Sales	**$30,000,000.00**
Sales Tax Collected	$2,055,000.00
Credit Card Fees on Sales Tax Collected (2.00% fee on 27.2% of transactions)	$11,207.97
Debit Card Fees on Sales Tax Collected (1.155% fee on 39.3% of transactions)	$9,318.46
Total Card Fees Paid on Sales Tax Collected	$20,526.43
Vendor Allowance from State (1.31% of sales taxes collected)	$26,920.50
Vendor allowance remaining, after paying credit card fees on sales tax, to cover all other collection, remittance and compliance costs	$6,394.07
State of Utah's estimate of "collection, remittance and compliance costs" (.8%)*	$16,440.00
"Profits" Generated from Vendor Allowance	**($10,045.93)**

Source: Utah Retail Merchants Association

Other Utah Tax Collectors Are Compensated For Collecting And Remitting Taxes.

The State Tax Commission and County Assessors Offices retain a portion of the taxes they collect to pay their administrative costs. Retailers' vendor allowance helps offset some of the costs retailers incur in collecting, accounting for, and remitting sales taxes for the state and other government entities. It is simply unfair to require retailers to collect sales tax without any compensation, when the public tax collecting entities receive compensation for their costs.

The 1.31% Vendor Allowance Does Not Cover The Full Cost Of Collecting Sales Tax.

According to the 2006 Joint Cost of Collection Study, the average cost retailers incur for collecting sales tax varies from 2.17% to 13.47%, depending on the retailer's scale and location. That means the 1.31% vendor allowance does not even cover the cost of collecting, accounting for and remitting sales tax for the state.

As the Table 1 shows, the cost for retailers to collect and remit sales tax is even more burdensome, when credit card fees on collected sales taxes are taken into account. Every time consumers use a credit or debit card to pay for their purchases, retailers pay credit card companies a fee on the transaction's sales tax. Since Utah consumers use credit or debit cards for approximately two-thirds of their retail purchases, the costs retailers face for collecting sales taxes on these purchases far exceeds the current vendor discount.

In the example described in Table 1, a retailer has annual sales of $30 million. Assuming a sales tax rate of 6.85%, the retailer collects $2.06 million in sales tax. Because Utah consumers use credit cards and debit cards to pay for approximately one-third of these transactions, the retailer would pay credit card companies $11,200 in fees on the taxes they collected for credit card purchases, and another $9,300 on the taxes they collected for debit card purchases. In other words, retailers incur just over $20,500 in fees just on the sales taxes the retailer collects for the state.

The 1.31% vendor discount on the $2 million in sales tax collected translates into almost $27,000 to offset the retailer's costs. However, the retailer incurs other costs to collect and remit sales taxes. Based on the state's own estimated compliance costs of 0.8%, the retailer would incur another $16,400 in costs associated simply with collecting sale saxes. These compliance costs and credit card costs mean this retailer already loses just over $10,000, so it can collect sales tax for the state. If the Legislature eliminates the vendor discount, the retailer would lose $27,000.

The Legislature's task of balancing the budget will be no easy task this year, particularly when some estimates place the budget shortfall as high as $1 billion. However, saddling Utah retailers with additional costs to collect sales tax will not improve Utah's economy. In fact, Utah consumers will simply pay more, as retailers raise prices to offset the increased taxes created by the elimination of the vendor discount. A better solution would be to cut spending, so taxpayer dollars remain where they belong – in taxpayers' pockets.

Quick Facts About The Sales Tax

- 45 states and the District of Columbia impose sales taxes on the purchase of tangible goods.
- 4,696 cities, 1,602 counties and 1,113 other tax jurisdictions across the country also impose sales tax.
- The State Tax Commission is compensated for collecting the State's income taxes.
- County Assessors Offices are compensated for collecting the State's property taxes.
- The State of Utah is compensated, by other government entities, for collecting and remitting the sales tax to these entities.

A Tax By Any Other Name: Salt Lake County Council's Public Safety Fee

County Council should cut spending instead of hiding behind fee increase

Taxpayers pay property taxes once a year, and they know exactly how much they pay, so property tax increases channel taxpayer angst better than any other tax. And that is why local elected officials go through so many machinations to avoid the transparency of Truth in Taxation.

The latest example of trying to avoid the transparency of the Truth in Taxation process is in Salt Lake County, where the County Council wants the Unified Police District (UPD) to impose a new public safety fee on property owners in unincorporated Salt Lake County, instead of cutting spending in the municipal services budget.

Because the UPD relies largely on sales tax revenue to cover its costs, the severe drop in sales tax collections since the recession began necessitates one of two choices – cut spending or increase taxes and fees. The Salt Lake County Council has already cut the 2010 public safety budget by 6.1 percent, and is unwilling to make further cuts, so they are looking to raise an additional $11 Million. Salt Lake County is one of Utah's most bloated government bureaucracies, so they should make further cuts. If they aren't willing to do that, then they need to subject themselves to the rigor of the Truth in Taxation process.

In raising additional revenue, the County Council has two choices. They can impose a property tax on unincorporated Salt Lake County, or they can have the Unified Police District impose a fee. They chose a fee increase.

Salt Lake County says that filling this gap with a fee instead of a property tax increase means property owners will pay less. They argue that churches, hospitals and other non-profits will pay the fee, where they would be exempt from property tax.

Salt Lake County claims they have structured this fee so that those who consume the most police services pay the largest fee. To that end, the County Council has asked the UPD to impose a sliding scale fee on property owners. The scale varies by the number of employees at a business, whether the business is a "regional employer," and how many calls are made to the type of business.

Given that the County Council has decided not to cut public safety spending any further, the County must fill the sales tax deficit somehow. However, the structure of this public safety fee seems much more designed to foist costs onto productive businesses than to distribute costs based on cost of service. Not only does the County proposal use "disproportionate service fees" to increase the fees paid by local businesses, but they also increase fees for companies with a large employee base or so-called "regional employers."

SALT LAKE COUNTY

The increases associated with being a "regional employer" and having a large number of employees ding the same companies twice. Similarly, the sliding scale for disproportionate service calls seems to correlate with the number of employees. A Wal-Mart Super Center has many employees, and so pays $6,826, while a hotel or motel has very few employees, and so pays just $5 per room.

Salt Lake's County Council is looking for a way to make this tax increase more palatable to voters, so they are manipulating the structure to minimize costs to homeowners, and drive up costs on businesses. The reality is that police protection is a public good; providing police protection to one provides police protection to all. As such, police protection is more akin to public education. Everyone should contribute equally, because everyone benefits.

That's why the County Council's proposed public safety fee for law enforcement in unincorporated Salt Lake County is such a bad idea. Instead of trying to stick it to business under the pretense that they receive more of the benefit, Salt Lake County should reduce spending, and hold taxpayers harmless. There is no need for Salt Lake County to increase taxes.

VF Factory Outlet Mall: Canyons School Board Should Reject Proposed Taxpayer Subsidies For Redevelopment

Cities never seem to tire of trying to steal retail developments from each other. The latest example is in Draper, where the City Council hopes to prevent Riverton from "stealing" sales of movie theater tickets, that, according to the Draper solons, rightly belong in Draper. That's why they want the Canyons School Board to subsidize with school tax dollars the redevelopment of the VF Factory Outlet Mall.

Your Utah Taxpayers Association has reviewed the draft report from Draper City describing their proposed "VF Factory Outlet Mall" community development area (CDA). Based on our review, in the strongest possible terms we urge the Canyons School District not to participate in the proposed CDA.

The VF Factory Outlet Mall CDA is another example of just how badly CDAs can be abused. It proposes to provide tax subsidies to a developer to build retail stores, family restaurants and a movie theater. Presumably Draper believes the tax subsidies offered by this CDA will spur net new economic activity. They will not.

Tax subsidies do nothing to stimulate retail economic activity; instead, they just rearrange which city reaps the taxes associated with the retail activity.

All the development contemplated in the Draper CDA is retail. Tax subsidies do nothing to stimulate retail economic activity; instead, tax subsidies just rearrange which city reaps the taxes associated with the retail activity.

There are limited circumstances in which a CDA, or another form of an RDA, may be appropriate. Assume Toyota were deciding whether to locate a manufacturing plant in Draper or Huntsville, Alabama. If Toyota chooses Draper, then Utah would enjoy new economic activity. The plant would bring new, higher-paying jobs, which, but for the incentive, would not have occurred in Utah.

In that case, it might be appropriate for Draper, the Canyons School District, Salt Lake County and the other taxing entities to provide tax incentives to make Draper Salt Lake more attractive to Toyota. In all likelihood, the Governor's Office of Economic Development would also provide appropriate incentives to make Draper's bid for the Toyota plant more competitive.

Unfortunately, Draper's CDA bears no resemblance to the hypothetical case of a CDA being used to attract a Toyota plant. The entire project consists of retail sales, and retail sales will occur in the greater community with or without tax subsidies.

If the Canyons School District agrees to give property tax subsidies to the VF Factory Outlet Mall developer, they will get nothing in return. Every transaction in the proposed development will occur somewhere in the greater community without that subsidy. The transactions may be in Sandy or Midvale or Cottonwood Heights, but they will occur.

The plight of the Cottonwood Mall illustrates the folly of retail RDA/CDA projects like the proposed Draper CDA. Almost two years ago, the Granite School Board approved an RDA to subsidize the redevelopment of the Cottonwood Mall. Like the Draper CDA, the proposed Cottonwood Mall design included a mixture of retail, office space and residential units. The total subsidy from all the taxing entities totaled nearly $100 million over 20 years.

Despite those subsidies, the Cottonwood Mall project lies fallow. Those subsidies did not and could not change the amount of consumer spending. The reason for its failure is simple. Tax subsidies for retail development are nothing but corporate welfare. While they may skew the location of the activity, they spur no new economic activity.

The Granite School Board was under extreme pressure to support the Cottonwood Mall RDA. Five cities across the District wanted their own retail RDA project, so board members had difficulty supporting the project in their city, but opposing the other projects.

In this case, the Granite School Board can and must prevent that kind of logrolling. This is the first RDA project presented to the Canyons School Board. If the Board votes against the Draper CDA, they will send a strong message to other cities that school property tax dollars belong in the classroom, not in developers' pockets. On the other hand, a vote in favor of the proposed CDA would be an open invitation to developers and cities alike to ask the Canyons School Board for subsidies.

We had hoped that cities would learn the lessons of the Cottonwood Mall's failure, and not seek tax subsidies for similar projects. At least in the case of Draper, that is not the case. We hope the Canyons School Board will be more realistic than the Granite School Board was.

Canyons School District Board Meeting

The Canyons School District will be holding their monthly board meeting on January 19, 2010 at 7:30 pm. They will be discussing the VF Factory Outlet Mall CDA. Please show your opposition to the proposal by attending the meeting. The meeting will be held at the Canyons School Support Center 9361 S. 300 E. in Sandy.

Severance Tax On Coal: A Bad Idea

Whenever state revenues fall, the tax and spend lobby cast about for any tax increase they can justify, and imposing a severance tax on coal always seems a convenient target. However, those who advocate for a coal tax seem to always forget that the Legislature has repeatedly studied severance taxes on Utah coal, and has always come to the same conclusion: they are a bad idea.

According to the office of Legislature Research and General Counsel, the Legislature thoroughly studied severance taxes on coal in 1976, 1982 and again in 1990. Those studies all note that Utah coal comes from deep mines, which makes it more expensive to extract than coal from other states.

Table 1: Production of Utah coal

Year	Production (in tons)
2006	26,131
2007	24,288
2008	24,275
2009	21,700

Source: Utah Geological Survey

Ninety-three percent of Utah coal is used to generate electricity. Because the electric generating market is very competitive, an increase in the price of Utah coal, in the form of a severance tax, would simply shift coal purchases from Utah mines to mines in other states. Moreover, most of the power plants that use Utah coal are regulated utilities, where the utility recovers ALL of their production costs through the rates paid by power consumers. In other words, Utah ratepayers would pay all of the severance tax on coal.

Some advocates for severance taxes on coal claim foreign demand for Utah coal will prop up Utah mines, even if Utah imposes a severance tax on coal. The evidence simply does not support that claim. According to an April 6, 2008 article in the *Salt Lake Tribune*, "Utah's coal industry has not been able to capitalize much on the surging global demand for its product because no western US ports are shipping coal to Asia. The March 2007 closure of the Port of Los Angeles coal terminal effectively put an end to already shrinking exports to Japan and China." Instead, Asian demand for coal is largely being fed by Australia and Indonesia.

With all of these competitive pressures, Utah coal mining companies are already feeling pinched. The number of Utah mines has decreased from 13 in 2006 to 8 in 2009. And the amount of coal extracted from Utah mines has similarly decreased from 26,131 tons in 2006 to an estimated 21,700 tons in 2009.

Given this already shrinking base, and the very competitive markets in which Utah coal is traded, Utah policy makers cannot expect a severance tax on coal to be a reliable source of revenue. If anything, the trajectory of Utah's coal mines suggest that any severance tax on Utah coal would accelerate their demise, and the jobs and other economic benefits those mines offer.

Continued: Utah Taxpayers Association 2009 Property Tax Report

income growth, particularly since 1998 as the Legislature has made very few changes to property taxes. Over the past ten years, property tax revenues have increased at an annualized rate of 7.1%, compared to annualized personal income growth of 5.8%.

How can property tax revenues increase so much when local governments do not get automatic inflationary increases?

Under Truth-in-Taxation, property tax rates are reduced as valuations of existing properties increase. This reduced rate – called the certified tax rate (CTR) – is then applied to all properties, including new growth. However, under certain conditions, property tax revenues can increase much faster than combined inflation and population growth.

The first condition is that local governments adopt a tax rate that is higher than the certified tax rate. Local governments can adopt rates that are higher than the certified tax rate if they go through the Truth-in-Taxation notification process. Most local property tax rates have statutory maximum levels. For example, special service district rates cannot exceed 0.0004 and cities cannot exceed 0.007.

The second condition is that local governments issue bonds, which are exempt from CTR calculations. In some cases, local governments – particularly school districts -- issue bonds that were approved by voters up to ten years previously.

The third condition is that property valuations increase rapidly. Even though increased valuations of existing properties do not create additional revenues for local governments, rapid increases in "new growth" valuations can substantially increase property tax revenues. In 2008 and 2009, property valuations actually decreased in some areas, but in previous years rapid property valuation increases allowed local governments to increase revenues above inflation while not exceeding the certified tax rate.

Effective Tax Rates and Taxes Charged by Local Governments

School districts receive about 54% of total property tax revenues, up from 50% ten years ago but down from 56% last year. The very large increase in special service district revenue is attributable largely to the establishment of a debt service area due to the creation of the Canyons School District. If this amount is included as school district property tax, the school district share increases to 56%.

Highest and Lowest

Every year, your Taxpayers Association lists the five highest and five lowest property tax rates for each type of local government. In addition to local government efficiency, other factors impact property tax rates, particularly property tax bases. Local governments with large assessments of business and secondary residential property generally have lower property tax rates. At the city level, property taxes are impacted by cities' decisions to impose utility franchise taxes. Most urban cities impose this tax while many rural towns do not.

City property tax rates are also impacted by city sales tax bases, which explains why so many mayors, council members, and city "economic development" directors like to subsidize retail businesses. Also impacting a city's property tax rate is whether services such as library, water, and fire protection are provided by the city or by a special service district. In some cases, a city with municipal power charges electric rates higher than needed to cover power costs and uses the "profit" to reduce property taxes.

Best/Lowest Tax

Schools	Tax Rate		Counties	Tax Rate		Cities (Top 30)	Tax Rate
1. Wayne	0.003656		1. Summit	0.000943		1. Riverton	0.000816
2. Piute	0.003685		2. Tooele	0.001133		2. Kaysville	0.000907
3. Rich	0.003834		3. Utah	0.001203		3. Bountiful	0.000948
4. Kane	0.003949		4. Rich	0.001388		4. Spanish Fork	0.001076
5. Park City	0.004018		5. Garfield	0.001562		5. Sandy	0.001356

Worst/ Highest Tax

Schools	Tax Rate		Counties	Tax Rate		Cities (Top 30)	Tax Rate
37. Box Elder	0.008201		25. Millard	0.003639		26. Cedar	0.002462
38. S. Sanpete	0.008304		26. Piute	0.00377		27. South SL	0.002665
39. Tooele	0.008645		27. Daggett	0.003916		28. Ogden	0.003164
40. Nebo	0.008701		28. San Juan	0.004288		29. W. Valley	0.003604
41. Tintic	0.009132		29. Emery	0.004525		30. Salt Lake	0.004656

Source: Tax Commission except for statewide effective rate which is calculated by Utah Taxpayers Association based on Tax Commission data

School district property tax rates are impacted by enrollment growth rates and assessed valuation per student. Growing districts, in addition to usually having low assessed valuations per student (except for Washington and Wasatch), typically have high property tax rates to cover construction bonds.

Does Truth-in-Taxation unnecessarily restrict property tax revenue growth?

Over the years, opponents of TNT have argued that TNT does not allow property tax revenues to grow fast enough, although they won't be making that argument too loudly this year since property taxes are faring much better than sales taxes. TNT opponents argue that property tax revenues as a percent of total personal income have decreased since TNT's enactment. However, most or all of this decrease is attributable to property tax reductions unrelated to TNT. During the 1990s, the Legislature reduced the statewide basic levy for education twice, and also allowed counties to impose a sales tax in return for reducing property taxes. Analyzing city property tax revenues as a percent of personal income is a reliable method for determining the impact of TNT on property tax revenues since the Legislature has not enacted any bills in recent years that have impacted city property tax collections. City property tax revenues as a percent of total personal income have been very stable since 1985. During good and bad economic times, city property taxes have been 0.40% +/- 0.05% of personal income.

County-wide Effective Tax Rates (ETR)

County	Valuation	Property Taxes	ETR	Rank
Wayne	259,307,515	1,467,494	0.57%	1
Rich	858,079,098	4,974,052	0.58%	2
Summit	16,290,196,795	125,208,073	0.77%	3
Kane	1,581,776,401	13,043,152	0.82%	4
Daggett	253,427,227	2,162,947	0.85%	5
Garfield	565,943,365	4,978,662	0.88%	6
Piute	89,186,483	786,805	0.88%	7
Morgan	907,403,934	8,178,144	0.90%	8
Wasatch	4,542,375,626	42,003,069	0.92%	9
Iron	3,911,823,812	38,360,433	0.98%	10
Beaver	666,826,860	6,564,154	0.98%	11
Grand	1,210,528,110	11,948,440	0.99%	12
Uintah	4,536,693,829	45,848,691	1.01%	13
Millard	1,949,565,415	19,867,854	1.02%	14
Carbon	2,211,993,855	22,805,244	1.03%	15
Cache	5,584,028,611	57,853,164	1.04%	16
Sevier	1,174,645,839	12,178,923	1.04%	17
Washington	11,871,103,133	130,830,966	1.10%	18
Utah	28,468,778,399	318,060,959	1.12%	19
Tooele	3,161,421,796	37,014,567	1.17%	20
Sanpete	1,137,720,611	13,471,416	1.18%	21
Duchesne	1,668,543,270	19,932,860	1.19%	22
Davis	16,784,290,045	202,173,370	1.20%	23
Emery	1,759,979,075	21,481,257	1.22%	24
Juab	780,119,888	9,667,159	1.24%	25
Box Elder	3,152,957,986	40,734,302	1.29%	26
Salt Lake	73,734,383,243	970,629,271	1.32%	27
Weber	12,356,082,608	167,847,787	1.36%	28
San Juan	762,257,872	11,077,909	1.45%	29

Calculations by Utah Taxpayers Association based on Tax Commission data

County-wide Effective Tax Rates (ETRs)

County-wide effective tax rates are determined by dividing total real and personal property taxes charged by all tax entities within a county – including school districts, cities, special service districts, and the county itself – by the county's total assessed valuation. Valuation-weighted tax rates vary dramatically from county to county for several reasons. Some local governments operate more efficiently than others. Some counties have low or high property tax bases per capita. Local governments with low property (and sales) tax bases, which may be due to low property values and/or low population bases, need to provide the same services as counties with high property tax bases.

The accompanying chart shows effective tax rates for all twenty-nine counties, with counties listed in ascending order based on ETR.

Value of Primary Residence Exemption (2008)

Primary residences in Utah receive a 45% exemption on property taxes. This is one of the largest tax exemptions in Utah, even though sales tax exemptions for manufacturers receive much more publicity. The largest single exemption is probably the exclusion for items for resale.

The value of the 45% exemption can be calculated two different ways. First, if the exemption were removed and certified tax rates were not reduced, yielding a revenue windfall for local governments, then the value of the 45% exemption would be $938 million annually. Second, if the exemption were removed and certified tax rates were reduced to maintain revenue neutrality, then the value of the 45% exemption would be $298 million.

How Does Truth-in-Taxation Work?

Truth-in-Taxation is a revenue-driven system, not a rate-driven system. Generally, as valuations of existing property increase, property tax rates decrease. This automatic reduction in property tax rates prevents local governments from getting a windfall simply because valuations have increased. For example, if valuations of existing property increase by 20%, the property tax rate decreases by 16.7% to maintain revenue neutrality as demonstrated by the following equation:

(100% + 20%) * (100% - 16.7%) = 100% of original tax = no change

The reduced property tax rate is known as the certified tax rate (CTR). This rate is then applied to all property, including "new growth." While local governments receive increased revenues due to new growth, TNT includes no automatic adjustment for inflation. Debt service, automobile fee-in-lieu and semiconductor personal property revenues are excluded from CTR calculation. RDA increments are excluded from CTR calculations (as increment becomes taxable, it is treated as new growth)

If local governments want to adjust for inflation (or more, or less), they go through TNT notification and hearing process. This is a good opportunity for local government officials to explain the proposed budget to their constituents.

The Utah Taxpayers Association does not oppose every proposed increase over the certified tax rate. In many cases, local governments are recouping inflationary losses. Certainly, that is not always the case.

Why did my property taxes increase so much this year?

Generally, when property valuations increase, property tax rates decrease to maintain revenue neutrality (excluding new growth). This revenue-neutral rate is called the certified tax rate. This rate is then applied to all properties, including new residential and commercial developments. Increased valuations due to new developments do not reduce the property tax rate.

Despite Truth-in-Taxation's ratcheting down of property tax rates as valuations of existing properties increase, sometimes property owners see a higher property tax bill. Sometimes, property owners see a decrease. There are several reasons why.

Property valuations increase faster in one area than in others.

If a given property's valuation increases faster than the average property in a given tax entity, that property will experience a tax increase. Property valuations can increase faster in some areas than in other areas for two reasons. First, properties are periodically reassessed. As a result, properties that were recently reassessed by the county will typically experience larger valuation increases than properties that were not reassessed recently. Second, real estate market demand may push up the value of some properties faster than others.

Using the above example, if existing property valuations increase 20% county-wide, the tax rate is reduced by 16.7% to maintain revenue neutrality (excluding new growth). However, properties that increased faster than the county (and/or school district/city/special service district) average will experience an increase in property taxes while others will experience a decrease. In the end, it all works out because other parts of the county and school district will be reassessed in following years and their taxes will increase while everyone else's decreases. Properties that experience a large increase due to assessment were probably undervalued in previous years.

Local governments issue voter approved general obligation bonds.

A local government's property tax rate is a sum of several tax levies. In most cases, one of the property tax levies is used to pay off voter-approved general obligation (GO) bonds. These debt service levies are NOT subject to Truth-in-Taxation. Therefore, if a local government issues a voter approved bond, property taxes may increase even though the local government's other levies were reduced by the Truth-in-Taxation process.

Local government raises taxes

Truth-in-Taxation does not prevent local governments from raising taxes. Once the certified tax rate has been calculated by the Utah State Tax Commission, local governments have the option of exceeding the certified tax rate. When local governments decide to exceed the certified tax rate, they must go through the Truth-in-Taxation notification and hearing process. Annually, about half of school districts increase their rates above the certified tax rate, and about 20% of counties and 5% to 10% of cities increase their rates above the certified tax rate.

Certified tax rates do not include adjustments for inflation. Therefore, local governments occasionally increase property tax rates to recoup inflationary losses. Sometimes, the proposed increases do more than offset inflation, sometimes less.

Local government imposes judgment levy

Occasionally, large taxpayers successfully appeal their property valuations, just as home owners successfully appeal their property valuations. In some cases, these large taxpayer appeals take several years to resolve. When that happens, the local governments must refund the property tax overpayment from previous years. In such situations, local governments have the option of imposing a one-time judgment levy to cover the costs of the tax refund. In these cases, property taxes may increase even though Truth-in-Taxation has reduced other levies. Residential appeals, on the other hand, are generally resolved quickly, which means that refunds of multi-year overpayments are not an issue for residences.

Board of Equalization Adjustments

Just as local governments are allowed to impose one-time judgment levies to cover costs of refunding previous years' overpayments to large taxpayers, tax rates are increased when any property owner (large and small) successfully appeal current-year property taxes. This adjustment is called the board-of-equalization (BOE) adjustment. This increases the certified tax rate.

Delinquent Taxpayers

Every year, some property owners do not pay their property taxes, usually due to financial hardships. (Property owners are required to pay their taxes even when they appeal.) When this happens, tax rates increase to hold local governments harmless.

BOE (3-year moving average) and collection (5-year moving average) adjustments do not change much from year to year, especially in large taxing entities like school districts and counties. However, in small cities/towns and special service districts, a couple of delinquent taxpayers or successful property tax appeals can increase the certified tax rate for all taxpayers.

Centrally Assessed Properties

Centrally assessed properties, such as utilities and mines, are assessed by the Utah State Tax Commission, and their impact on certified tax rates is different than locally assessed properties. When valuations of centrally assessed properties increase, certified tax rates are not reduced. As a result, local governments receive a windfall. When valuations of centrally assessed valuations decrease, these decreases are subtracted from the increases in locally assessed new growth. If the reduction in centrally assessed valuation exceeds the increase in locally assessed new growth, then the certified tax rate is increased to ensure that local governments do not receive less revenue than in the previous year.

For additional charts and graphs associated with this report, please visit www.utahtaxpayers.org.

Utah Taxpayers Association 2010 Legislative Watchlist

The Utah Taxpayers Association has released its 2010 legislative watchlist. The watchlist outlines the Association's position on bills of interest and will be continually updated throughout the legislative session. The 2010 legislative session begins on Monday, January 25th and ends on Thursday March 11th. The watchlist is available for viewing throughout the legislative session at www.utahtaxpayers.org.

For additional ways to stay informed throughout the legislative session, attend out weekly Legislative Committee meetings on Thursdays at 7:00 am in the Seagull Room at the south end of the Capitol cafeteria in the east annex building. Meetings are open to all members of the association and will begin on January 28th and will continue through March 4th.