

**MINUTES OF THE  
RDA / OTHER TAXES SUBCOMMITTEE  
TAX REFORM TASK FORCE**

Thursday, June 16, 2005 – 2:00 p.m. – Room W135 House Building

**Subcommittee Members Present:**

Sen. Curtis S. Bramble, Chair  
Rep. Merlynn T. Newbold, Chair  
Mr. Neil Ashdown

**Other Task Force Members Present:**

Rep. Ralph Becker

**Staff Present:**

Mr. Bryant R. Howe, Assistant Director  
Ms. Angela D. Oakes, Associate General Counsel

**Note:** A list of others present and a copy of related materials can be found at [www.leg.utah.gov](http://www.leg.utah.gov) or by contacting the task force secretary, Phalin Flowers, at 538-1032. A recording of the meeting is available from the task force secretary.

**1. Subcommittee Business**

Chair Newbold called the meeting to order at 8:35 a.m.

**2. Distribution of the One Percent Local Option Sales and Use Tax**

Mr. Howe distributed to the Subcommittee background information concerning the distribution of the one percent local option sales and use tax and information on revenue sources for municipalities and counties. Information distributed included *Utah Code* Section 59-12-205, which describes how the local option sales and use tax is distributed, "Distribution of the One Percent Local Option Sales and Use Tax - Fiscal Year 1999 through Fiscal Year 2004," "Sources of Revenue for Municipalities," "Sources of Revenue for Utah Counties," "Percent Property Tax Revenue is of All Government Funds Revenue FY2003," "Percent Local Option Sales Tax Revenue is of All Government Funds Revenue FY 2003" "Percent Property Tax and Local Option Sales and Use Tax Revenue is of All Government Revenue," "Percent Local Option Sales Tax Revenue is of All Government Funds Revenue FY 2003," and "Per Capita Local Option Sales Tax Revenue Average of Fiscal Year 1999 through Fiscal Year 2004."

Mr. Doug MacDonald, Chief Economist, Utah State Tax Commission, distributed and discussed "Local Sales Tax Distribution FY2002" and "May 2005 Local 1% Tax Distribution." Mr. MacDonald explained that the first document shows what the distribution effects would be if the local option sales and use tax were distributed based on 100% population with a hold harmless and 75% population, 25% point of sale with a hold harmless.

Mr. MacDonald explained that there are several steps in the distribution process. He explained that first a calculation is made of what the distribution would be if revenues were allocated 100% on point of sale, next a calculation is made for population and then a "hold harmless" provision is applied so that no municipality or unincorporated area of a county receives less than what it would have received had it imposed a .75% rate on its total gross taxable sales. He stated that adjustments are then made for population, refunds, vendor discounts, and administrative fees. Mr. MacDonald emphasized that the distribution formula is dynamic and that depending on sales, different cities may or may not benefit from the hold harmless provision each month.

Mr. David Spatafore, formerly with the Utah League of Cities and Towns, briefly reviewed the history of the one percent local option sales and use tax and the distribution formula. He said that for several years portions of the one percent local option sales and use tax were used for other purposes.

Mr. MacDonald suggested that state and local economic development policies could be more closely aligned through the distribution formula. Other factors that could be included might be wages and employment. He concluded by saying that while the formula is complex it still works well.

Sen. Bramble asked if state government employment could be removed from wage and employment information. Mr. MacDonald said that it could.

Rep. Becker asked if a wage factor were included whether this would account for fluctuations in daytime population. Mr. MacDonald replied that it would. Rep. Becker said that this would promote cities promoting job growth.

**MOTION:** Rep. Becker moved that the Subcommittee ask representatives of the Utah League of Cities and Towns, Utah Association of Counties, and Utah State Tax Commission to develop alternatives to the current distribution formula for the one percent local option sales and use tax. Alternative distribution formulas may include or replace the current factors of point of sale and population. Additional factors to consider include employment, daily fluctuations in population, land use considerations, and any other factors that will more closely align municipal and county economic development priorities with statewide economic development priorities. A recommendation on the feasibility and desirability of revenue sharing among local governments should also be presented.

Rep. Becker said that the purpose of this motion is to begin a process so that the Subcommittee can examine options for changes to the distribution formula.

Sen. Bramble said that he supports the goals of the motion, but not the process. He questioned whether the contents of the motion might be more appropriately considered by the Subcommittee rather than asking other groups to undertake this task. It would be better for the various organizations to bring recommendations to the subcommittee for review and action.

Rep. Becker replied that the motion is a way to move the study process forward and bring recommendations back to the Subcommittee.

Sen. Bramble said that the catalyst for changes to the telecommunications tax was the Legislature. The subcommittee should provide the forum for discussion of proposals.

Rep. Becker said that the subcommittee heard from the cities and counties last week and they have different views. He said that hopefully these groups can work together and arrive at some alternatives, this might save the subcommittee time in its deliberations and that the subcommittee can move forward with this issue.

Mr. Ashdown commented that it would be difficult for cities and counties to develop proposals, given the diversity of opinions that exist on this issue. An alternative could be for the subcommittee to develop and solicit comment on several proposals.

Rep. Newbold said that at most of the meetings the cities and counties have been asked for ways to improve our state and local tax system. The direction of the chairs has been direct in that we welcome any proposals.

**SUBSTITUTE MOTION:** Sen. Bramble moved that the Subcommittee confer with the Utah League of Cities and Towns, the Utah Association of Counties, the Utah State Tax Commission, the public education community and any other interested parties to propose specific recommendations for changes to the distribution formula for the one percent local option sales and use tax.

Sen. Bramble commented that the task force is aggressively moving forward and that interest groups should be prepared to submit recommendations.

The substitute motion passed unanimously.

**MOTION:** Rep. Becker replaced his original motion with the clarification that any interested party is welcome to submit recommendation and that he does not intend to exclude any group from this process. He said that this motion will facilitate the discussion of the motion just adopted by the Subcommittee.

Rep. Newbold suggested that the discussion take place at the Subcommittee level.

Sen. Bramble said that he is hesitant to have another working group established and that this discussion should take place with the Subcommittee. He said that it might be best for Rep. Becker to have informal discussions with members of these groups.

Rep. Becker clarified that to implement his motion that he is willing to meet with interest groups to facilitate this discussion and that any member of the subcommittee or task force is also welcome to attend these meetings.

The motion failed with Rep. Becker voting in favor.

**MOTION:** Rep. Becker moved that the issue of distribution of the local option sales and use tax be placed on a subsequent agenda and that staff be asked to analyze various alternatives and confer with interested parties in developing these alternatives.

Sen. Bramble asked that the motion be amended to include that the chairs schedule this item at a future meeting as appropriate. Rep. Becker agreed to the amendment to the motion.

The motion passed unanimously.

### **3. Insurance Premium Tax -- Admitted Insurers**

Mr. David J. Pearlman, Vice President, Associate General Counsel, Fidelity Investments, and Mr. Paul Rogers, appeared before the Subcommittee regarding an insurance product sold by Fidelity Investments. Mr. Pearlman explained that current Utah insurance premium tax law makes it difficult for his company to effectively market a certain line of life insurance. He distributed to the Subcommittee the proposed amendments to *Utah Code* Section 59-9-101 that would revise the tax rate on premiums of a certain amount.

**MOTION:** Sen. Bramble moved that the proposed amendments be referred to the Tax Reform Task Force for further consideration with a favorable recommendation.

Rep. Newbold asked Sen. Bramble if the proposal should be referred to the Task Force or referred directly to the Revenue and Taxation Interim Committee.

Sen. Bramble clarified that he felt it should be considered by the Tax Reform Task Force before presenting the proposal to the Interim Committee.

Sen. Bramble then restated his motion that the proposal be referred to the Tax Reform Task Force with a recommendation that the Task Force favorably move the proposal to the Interim Committee.

The motion passed unanimously.

#### **4. Other Items / Adjourn**

**MOTION:** Mr. Ashdown moved to adjourn the meeting. The motion passed unanimously.

Chair Newbold adjourned the meeting at 10:10 a.m.