

**OFFICE OF THE
UTAH STATE AUDITOR**

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New Growth Within Utah's Property Tax System

Prepared for the Revenue and Taxation Interim Committee

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Utah's Property Tax System

Default tax rates are set to generate the same amount of property tax revenue for a government in a given year as was collected in the prior year for existing property.

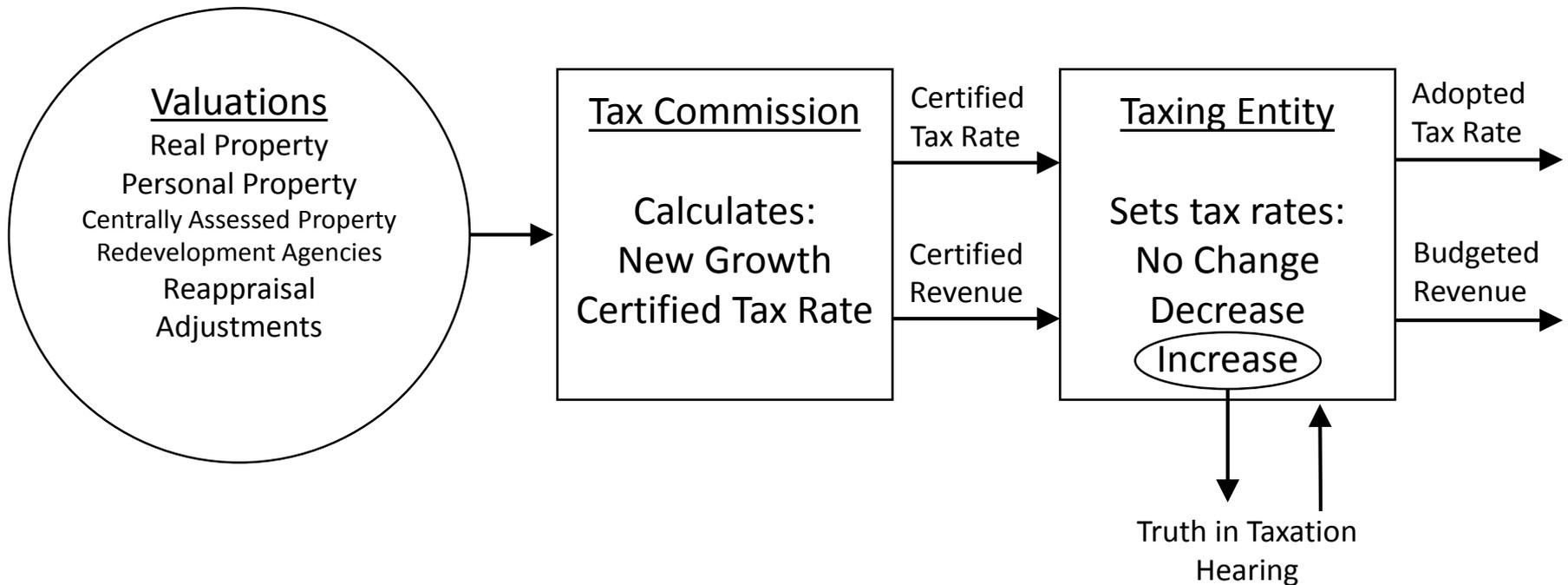
The Certified Tax Rate

$$\textit{Certified Tax Rate} = \frac{\textit{Prior Year Revenue}}{\textit{Property Value} - \textit{New Growth}}$$

Footnote: in this simplified example, property value includes adjustments for redevelopment and other factors impacting the actual calculation of certified tax rates.

Setting a Property Tax Rate

- The Tax Commission calculates certified tax rates.
- A taxing entity adopts a tax rate based on budgeted revenue.



New Growth is Ambiguous

- Common Understanding
- Statute
- Administrative Rule

Common Understanding of New Growth

Most people think of new growth as new homes and office buildings. The owners of new property demand similar public services as earlier property owners.

However, the computation of new growth is much more complicated than this understanding.

Example of New Growth

Replacement of personal property.

A business replaces an old board room table with a new board room table for \$25,000. The old table had a reported value of \$5,000. The difference in value adds \$20,000 to new growth.

Does the replacement table increase the demand for government services?

Example of Negative New Growth

Depreciation of personal property.

A company purchased new computers last year for \$300,000. Over the last year, the computers have depreciated and are now worth a reported \$200,000. The difference in value reduces new growth by \$100,000.

Do the cheaper computers reduce demand for government services?

Example of Negative New Growth

Declining value of central assessment.

A company loses market share providing telecommunication services. The shift in customer demand reduces the value of the large stock of infrastructure from \$2.0 to \$1.5 billion. The network infrastructure is physically unchanged with thousands of miles of cable and supporting equipment. The change in value reduces new growth by \$500 million.

Does the change in the infrastructure value change the demand for government services?

New Growth Calculation Error

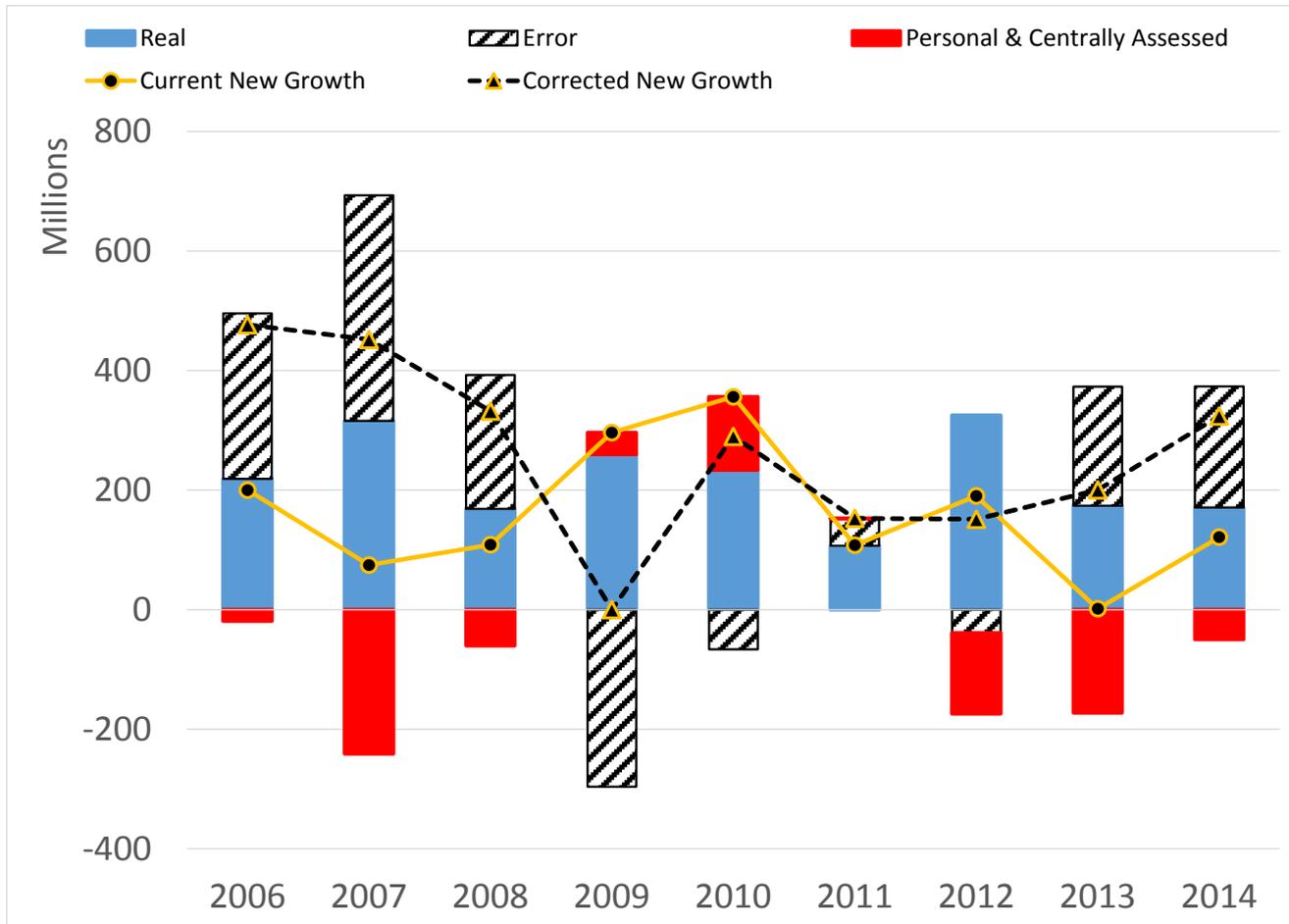
The error in computing new growth is caused by double counting the reappraisal value of redevelopment projects.

Salt Lake City 2013 calculation

Element	Current	Corrected
Real:	+ \$829,517,691	+ \$829,517,691
Personal:	- \$50,469,104	- \$50,469,104
Centrally Assessed:	+ \$103,980,682	+ \$103,980,682
Redevelopment:	- \$225,757,454	- \$225,757,454
Other:	- \$290,654	- \$290,654
→ Reappraisal:	- \$655,515,842	- \$456,561,620
New Growth:	+ \$1,456,319	+ \$200,419,541

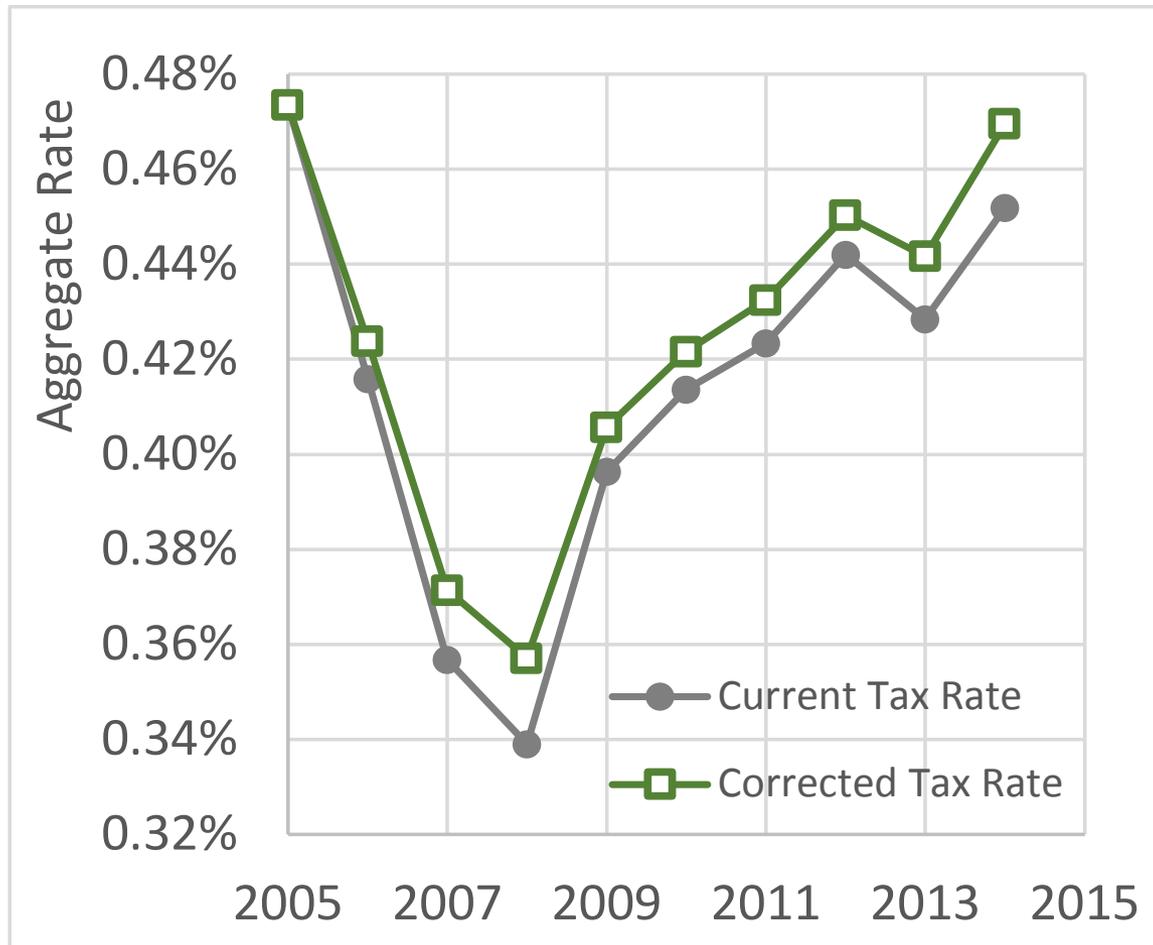
Impact on Salt Lake City

The error shifts hundreds of millions of dollars in new growth for Salt Lake City.



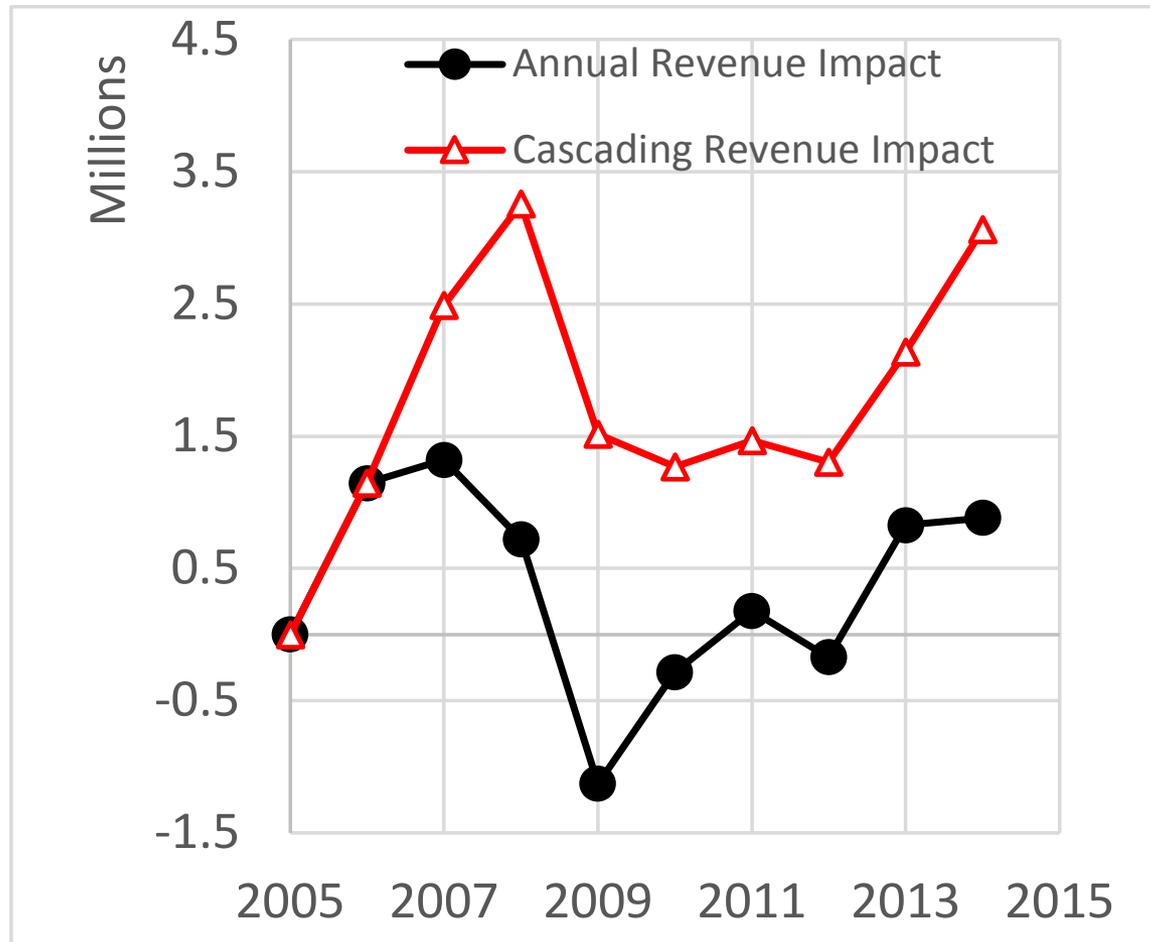
Impact on SLC Certified Tax Rates

The Certified Tax Rate would be higher without the error double counting redevelopment reappraisal.



Impact on SLC Certified Tax Revenues

Revenue in any given year may be positive or negative, but the errors cascade through time.



Recommendation

1 – Clarify Policy Regarding New Growth

The Legislature should clarify the method for calculating new growth and its use within the certified tax rate calculation.

Option 1

Limit new growth to the value of new real property directly measured by county assessors.

Option 2

Restrict the contribution of personal and centrally assessed property to actual new growth.

Recommendation

2 – Correct the Treatment of Reappraisal

Going forward, the Utah State Tax Commission should form policies and procedures to communicate to county officials that the amount of reappraisal should not include any contribution from property in redevelopment projects.

Recommendation

3 – Improve Redevelopment Project Data Collection

The Utah State Tax Commission should collect more detailed information on the tax bases, tax rates, and tax increments from redevelopment projects.

Recommendation

4 – Properly Report Tax Revenue and Transfers to Redevelopment Agencies

Accounting standards require local governments to report all property tax levied on their own financial statements. Some taxing entities are not properly accounting for the amount of property tax they collect and transfer to redevelopment agencies.