

New Growth in Utah's Property Tax System

WITH A FOCUS ON NEW GROWTH FROM CENTRALLY ASSESSED
PROPERTY

Overview

- ❑ Components of Utah's property tax system
 - ❑ Certified tax rate
 - ❑ Adjusted property value
 - ❑ New growth
- ❑ Isolate new growth from centrally assessed property

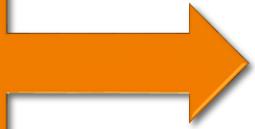
Components of Utah's Property Tax System

CERTIFIED RATE, ADJUSTED PROPERTY VALUE, AND NEW GROWTH

Utah's Property Tax System: A "Revenue-Driven" System

$$\text{Rate} \times \text{Property Value} = \text{Property Tax}$$

is determined by assessors and then adjusted.

- Prior year budgeted revenue
 - Current year property value
- 

$$\frac{\$10,000}{\$5,000,000} = .002$$

For Example: 2013 budgeted revenue and 2014 property value → 2014 rate.

Property Value: Who Assesses What?

County Assessors

- Real property (land and improvements)
 - Residential
 - Commercial and Industrial
 - Agricultural
- Personal Property (business only)

Locally Assessed Property

Property Value: Who Assesses What?

State Tax Commission

- Real and personal property
 - Airlines
 - Natural Resource properties
 - Public Utilities
 - Railroads
 - Pipelines

Centrally Assessed Property

Certified Tax Rate

The **certified tax rate** is a tax rate that will provide the same revenue as was budgeted for the prior year.

Divide prior year budgeted revenue by current year adjusted property value.

For example:

$$\frac{\text{2013 budgeted revenue of } \$10,000}{\text{2014 adjusted property value of } \$5,000,000} = \text{Certified tax rate of } .002$$

will provide \$10,000 of revenue in 2014

Adjusted Property Value

$$\frac{\text{Prior year budgeted revenue}}{\text{Current year **adjusted property value**}} = \frac{\$10,000}{\$5,000,000} = .002$$

Adjusted property value includes adjustments for redevelopment, the Board of Equalization, collection rates, and new growth.

As **adjusted property value** decreases, the certified tax rate increases.

What is New Growth?

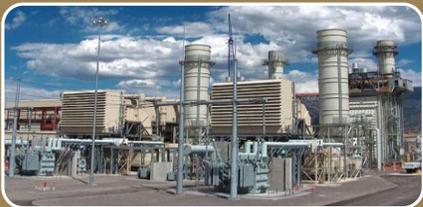


New locally assessed real property

- New home or office building
- Change in value for existing property is not new growth



Positive or negative change in value of locally assessed personal property



Positive or negative change in value of centrally assessed property

What is the Effect of New Growth?

New growth is excluded from property value to calculate the certified tax rate.

New growth is included in property value to calculate property tax.

Rate X **Property Value** = **Property Tax**

$$\frac{\text{Certified Tax Rate}}{\$10,000} = .002$$
$$\frac{\$5,000,000}{\$5,000,000}$$

X

$$\begin{array}{r} \text{Adjusted Property Value} = \$5,000,000 \\ + \text{New Growth} = \$500,000 \\ \hline \text{Property Value} = \$5,500,000 \end{array}$$

=

$$.002 \times \$5,500,000 = \$11,000$$

1 \$11,000 > \$10,000

2 Why? New growth is not included in the certified tax rate calculation.

What is the Effect of New Growth?

New growth has a floor of zero but no ceiling

- If the new growth calculation returns a negative number, it is adjusted up to zero
- Negative new growth makes **adjusted property value** ambiguous

	Positive New Growth	Negative New Growth	No New Growth
Property Value before Adjustments	\$ 5,500,000	\$ 5,500,000	\$ 5,500,000
New Growth	\$ 500,000	\$ (500,000)	\$ -
Adjusted Property Value	\$ 5,000,000	\$ 6,000,000	\$ 5,500,000
Prior Year Budgeted Revenue	\$ 10,000	\$ 10,000	\$ 10,000
Certified Tax Rate	0.002000	0.001667	0.001818
Revenue from Adjusted Property Value	\$ 10,000	\$ 10,000	\$ 10,000
Revenue from New Growth	\$ 1,000	\$ (833)	\$ -
Total Property Tax Revenue	\$ 11,000	\$ 9,167	\$ 10,000

Summary of New Growth

A taxing entity's revenue is held constant unless:

- There is new growth; or
- Entity goes through Truth in Taxation.

A taxing entity is guaranteed revenue equal to prior year budget.

New growth has a floor of zero but no ceiling.

New growth includes:

- Value of new locally assessed real property; and
- Changes in value of locally assessed personal property and centrally assessed property.

Isolating New Growth from Centrally Assessed Property

Isolation of Centrally Assessed New Growth: Assumptions

New growth

- No growth for **locally assessed property**
- As indicated for **centrally assessed**

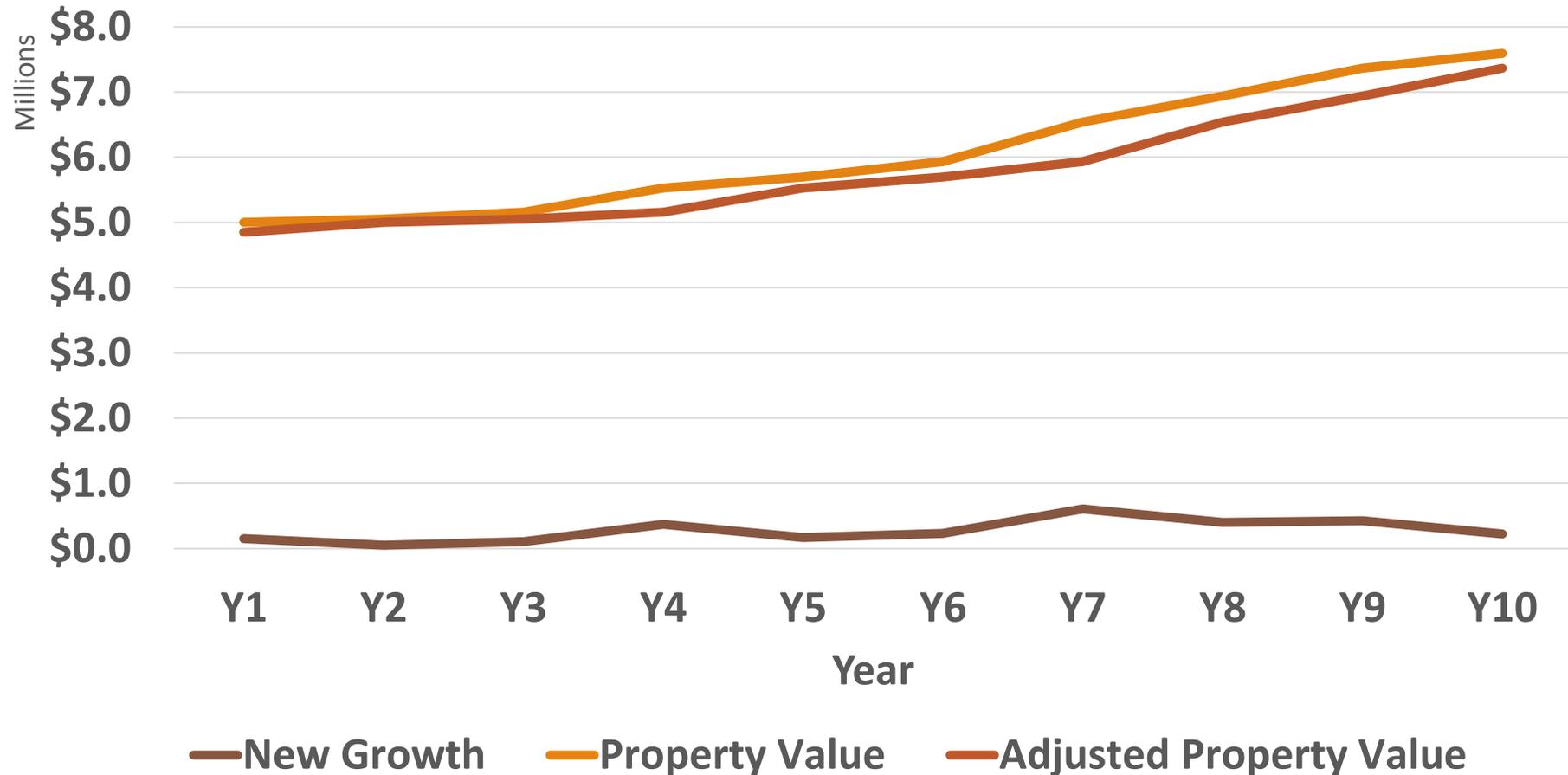
Initial values

- Property value = \$5,000,000
- Certified Tax Rate = .002
- 70% locally assessed and 30% centrally assessed

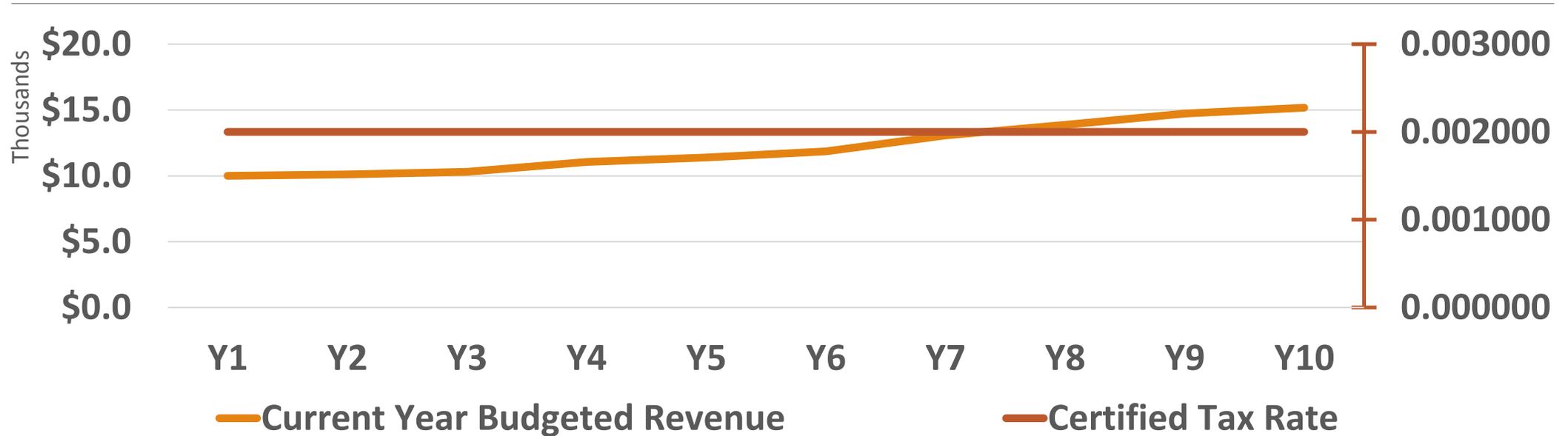
New growth is the only adjustment to property value

- Excludes adjustments for redevelopment, BOE, collection rate, etc.

Isolation of Centrally Assessed New Growth: Steady Increase (1% - 10%)



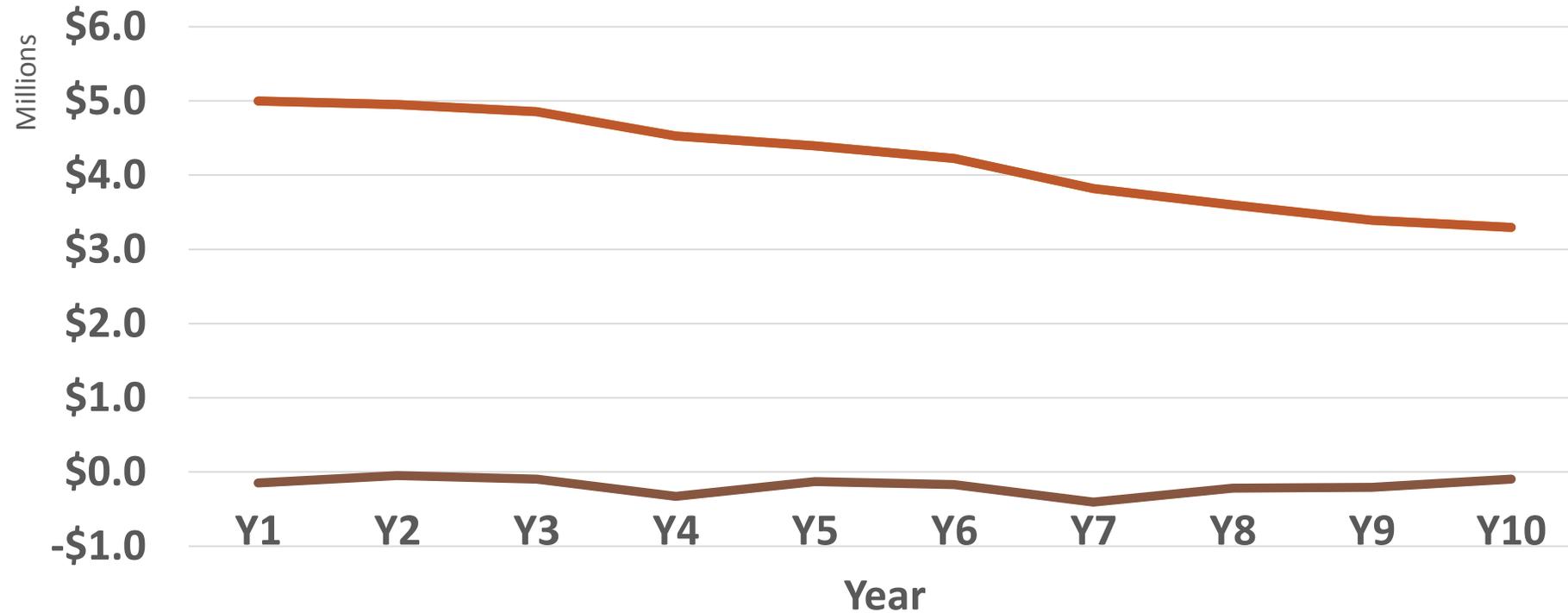
Isolation of Centrally Assessed New Growth: Steady Increase (1% - 10%)



1 Property value ↑, budgeted revenue ↑, and rate no change.

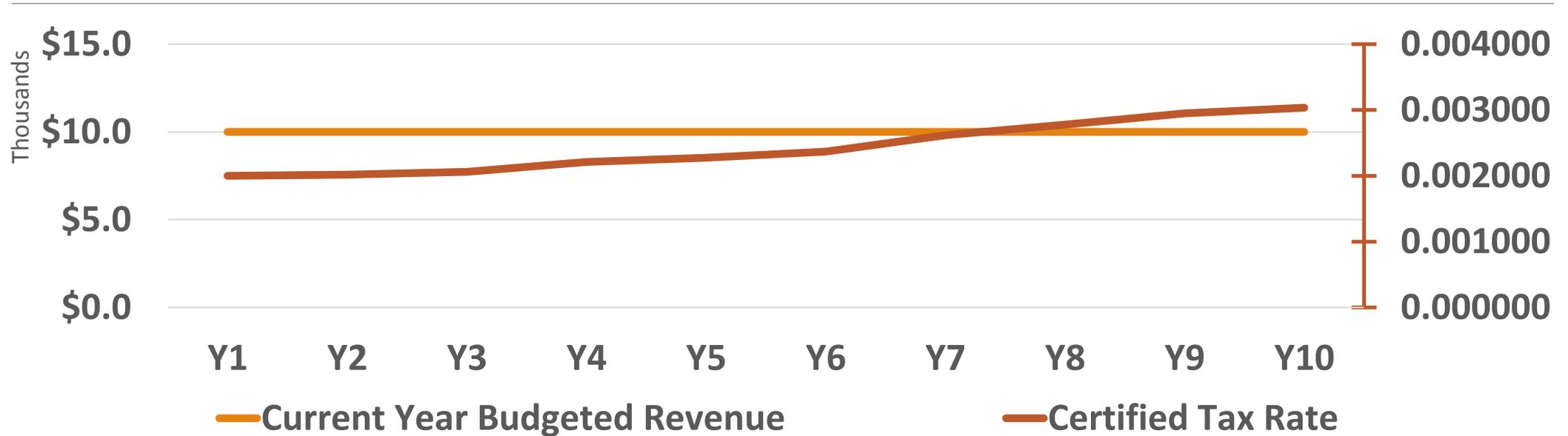
2 Why doesn't the rate ↓? Rate generally only ↓ as value of existing locally assessed real property ↑.

Isolation of Centrally Assessed New Growth: Steady Decrease (-1% to -10%)



— New Growth — Property Value — Adjusted Property Value

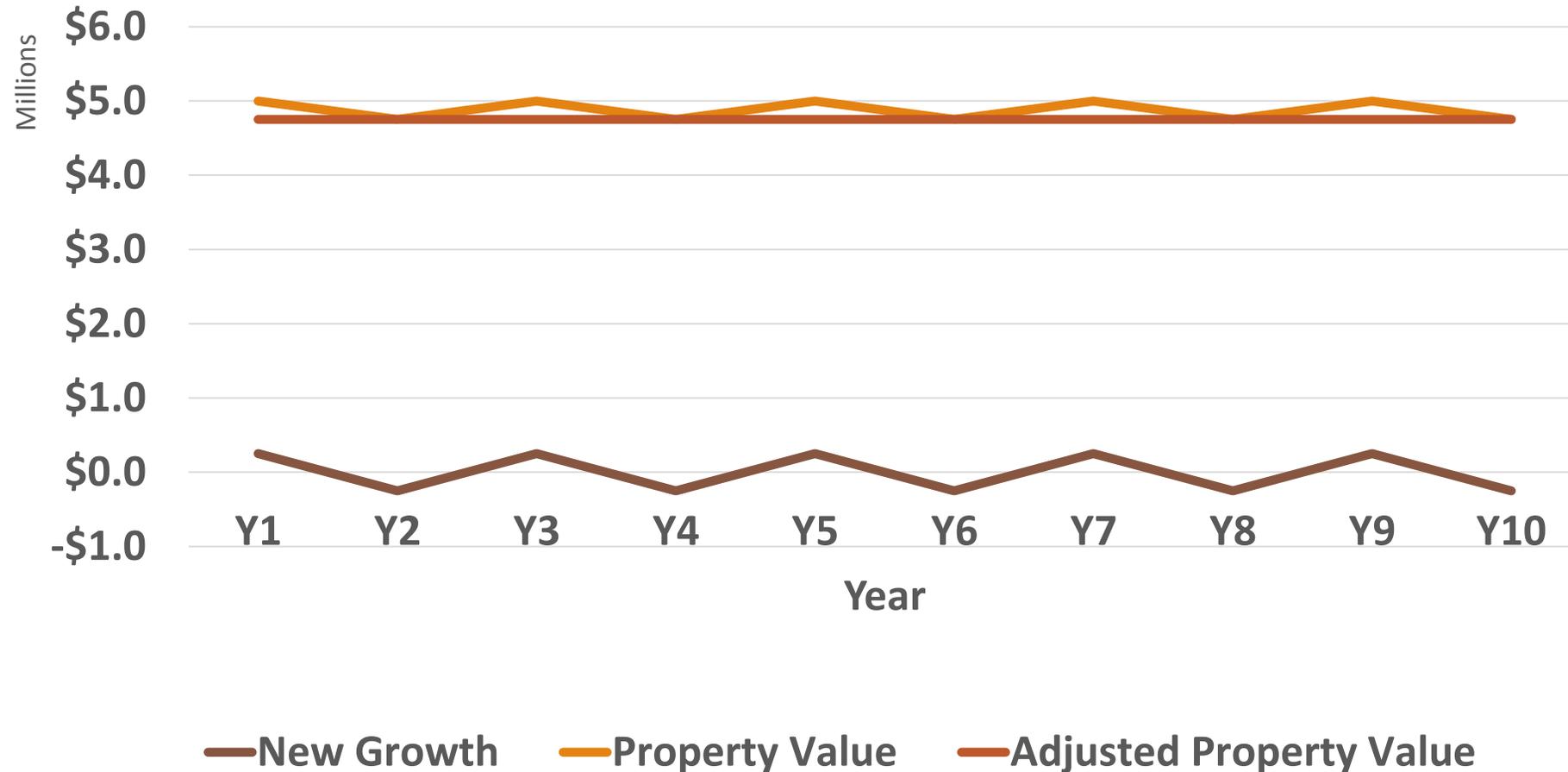
Isolation of Centrally Assessed New Growth: Steady Decrease (-1% to -10%)



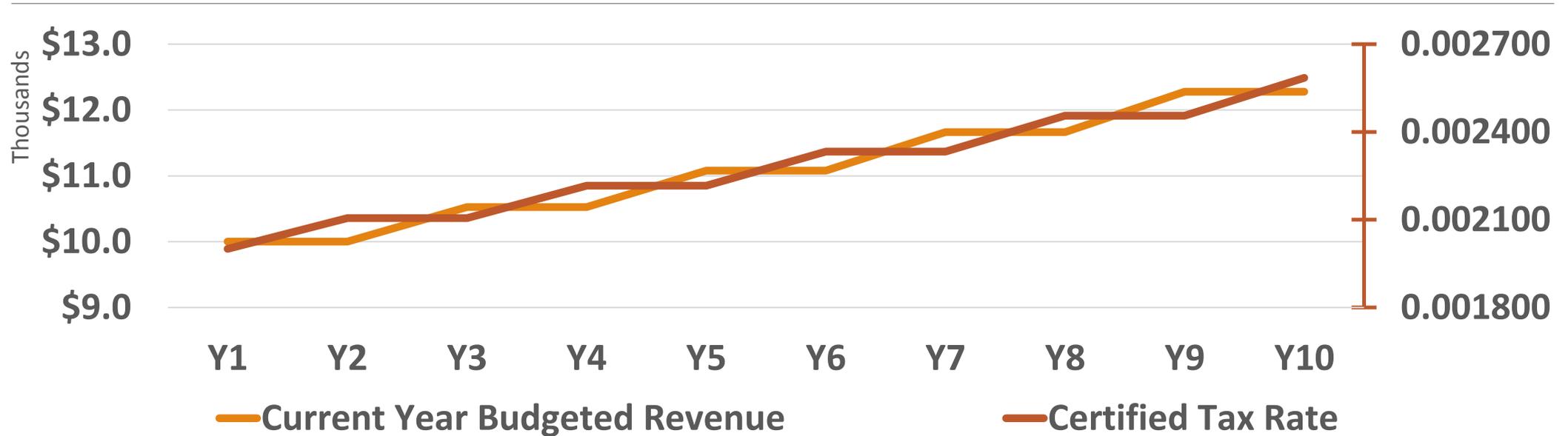
1 Property value ↓, budgeted revenue no change, and rate ↑.

2 Why does the rate ↑? Rate ↑ to maintain prior year budgeted revenue.

Isolation of Centrally Assessed New Growth: Volatile Up and Down (\pm \$250,000)



Isolation of Centrally Assessed New Growth: Volatile Up and Down (\pm \$250,000)



1

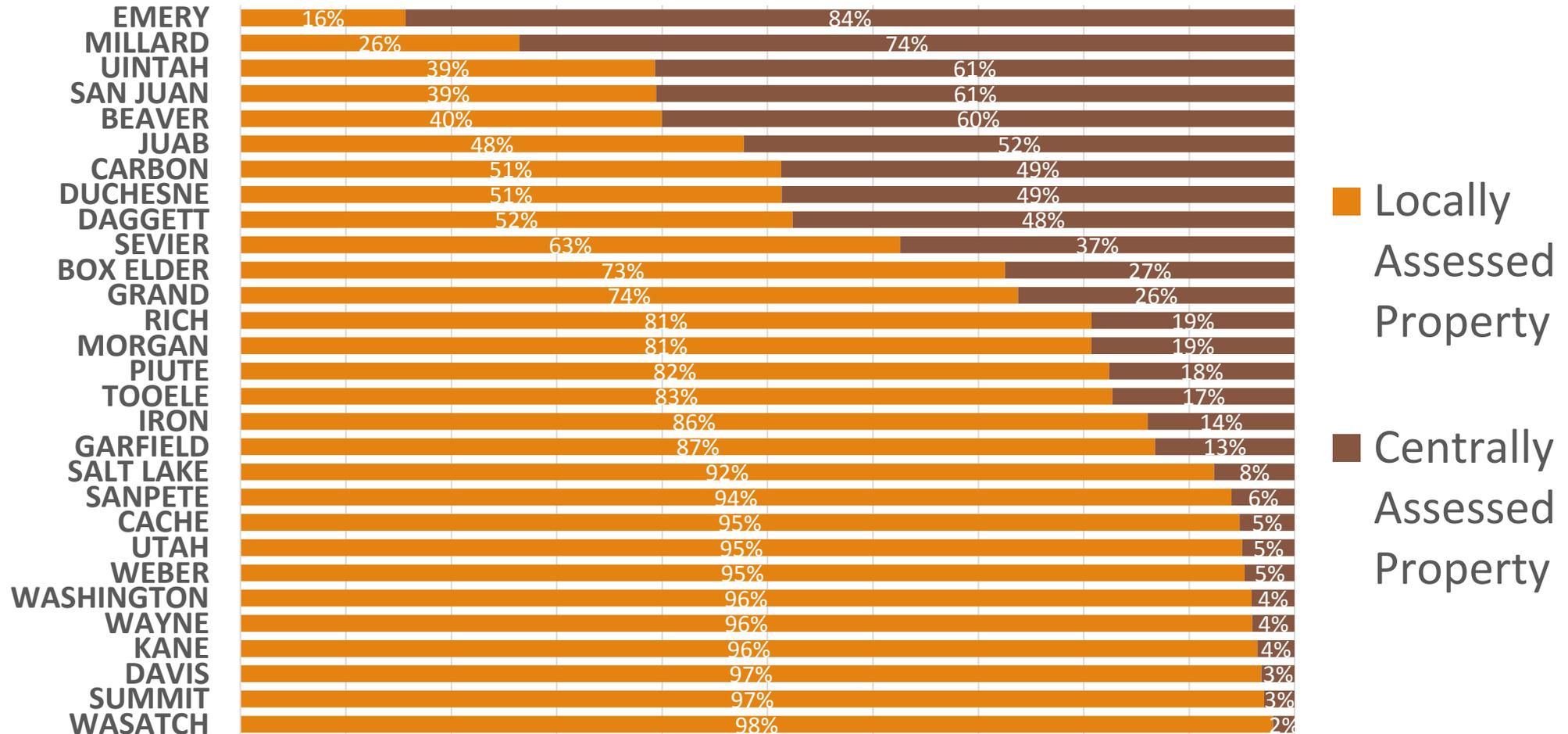
Property value \uparrow , budgeted revenue \uparrow .

2

Property value \downarrow , the rate \uparrow to maintain prior year budgeted revenue.

Centrally Assessed Property vs. Locally Assessed Property

2013 Tax Year



Centrally Assessed New Growth: Summary

Positive centrally assessed new growth doesn't decrease the rate.

Negative centrally assessed new growth causes a tax shift as the rate increases to maintain prior year budgeted revenue.

Rate generally only decreases when value of existing locally assessed real property increases.

Draft Legislation: Calculation of Property Tax Rates

- ❑ Defines “eligible new growth” (line 1068 to 1078)
 - ❑ New locally assessed real property only (excludes centrally assessed and personal property)
 - ❑ Same adjustments as before
 - ❑ Revenues become less volatile
 - ❑ Rate decreases as centrally assessed grows
- ❑ Removes considerations for redemptions from the calculation of the certified rate
 - ❑ Redemption is when delinquent taxes are paid
 - ❑ Simplifies calculation