

A VISUAL GUIDE TO TAX MODERNIZATION IN UTAH

PART THREE: UNDERSTANDING PROPERTY TAXES

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DAVID ECCLES SCHOOL OF BUSINESS

“The universal truth about taxation is that people want government without paying for it. The history of taxation is the story of a struggle among individuals and groups intent upon achieving that goal for themselves or for their groups.”

Glenn W. Fisher

Utahns share a common interest in a state and local tax system that provides for our needs, keeps the economy strong, and remains viable over the long term. This visual guide, which is the third in a series, illustrates key components of Utah’s property tax – the oldest and most stable of Utah’s major taxes.

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Dear Policymaker:

Utah's property tax predated statehood by nearly 50 years, making it Utah's oldest major tax and one that supported key services through years of both poverty and prosperity. Although the Territory, then State of Utah, relied on property taxes for many decades, in recent decades the property tax has served as a local tax, today providing approximately \$4.2 billion and making it the third largest tax revenue source after income and sales taxes. Utahns depend on the property tax to fund schools, counties, cities and towns, and special-purpose local districts.

Utah's nation-leading population and economic growth creates a property tax challenge. How do we preserve our life quality in the face of relentless growth and change? Meeting this challenge requires constant adaptation, innovation, and realignment of Utah's fiscal systems.

The property tax includes many important features. It is large, locally focused, stable, transparent, economically efficient, and administratively complex. Through school funding, the property tax intertwines with the state budget. Policymakers understandably seek guidance on how best to administer and set policies related to the tax (value property, set rates, and allocate revenue).

This visual guide will help policymakers understand the history, complexity, and policy options of and related to Utah's property tax. Policymakers will learn, among other details, the following:

- Disparities among school districts and how Utah's Minimum School Program partially equalizes these differences,
- Limits on automatic property tax growth through Utah's Truth in Taxation system,
- Property tax principles embedded in the Utah Constitution,
- Shifts in the property tax burden among taxpayers over time,
- An overview of how assessors value and local taxing entities tax property, and
- Economic effects of property taxes.

We also provide our best thinking on what the future holds for this significant revenue source.

The Kem C. Gardner Policy Institute prepares informed research that guides informed discussions and leads to INFORMED DECISIONS™. We present this visual guide to assist you in your policy deliberations.

With appreciation,



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

—James Madison

Property Tax Overview

The property tax is a major component of Utah’s state and local tax portfolio. Property taxes fund schools, counties, cities and towns, and limited-purpose local districts. Property tax revenues are roughly similar in magnitude to income and sales taxes (\$4.2 billion), but with unique advantages and challenges. For example, the property tax can enhance property values due to its close ties with local services. The property tax provides stable revenues and less economic drag than other major tax sources because of its unique features, such as a low rate and a broad base made up primarily of immovable real property. In short, the property tax is a key asset in the state’s broader tax portfolio.

Revenue Yield

Property taxes pay for about \$4.2 billion of Utah’s local government services, including those provided by schools, counties, cities, towns, and other districts. As shown in Figures 1 and 2, nearly 60% of property taxes fund schools. While the State of Utah itself chooses to no longer collect a property tax, school property taxes heavily influence state school budget allocations.

Benefits Tax

Although not a pure user fee, property tax revenues tie directly to many services that enhance property values and protect property rights. Examples include fire and police property protection, municipal utilities delivered to property, roads providing property access, records administration for real property, and schools whose desirability can enhance property values (even for those without children in school). When efficiently delivered, these core government services enhance property values and underpin an efficiently operating economy.

Figure 1: Utah Property Taxes Charged by Entity Type, 2020
(\$ in billions)

The Majority of Property Taxes Pay for Schools

Source: Utah State Tax Commission

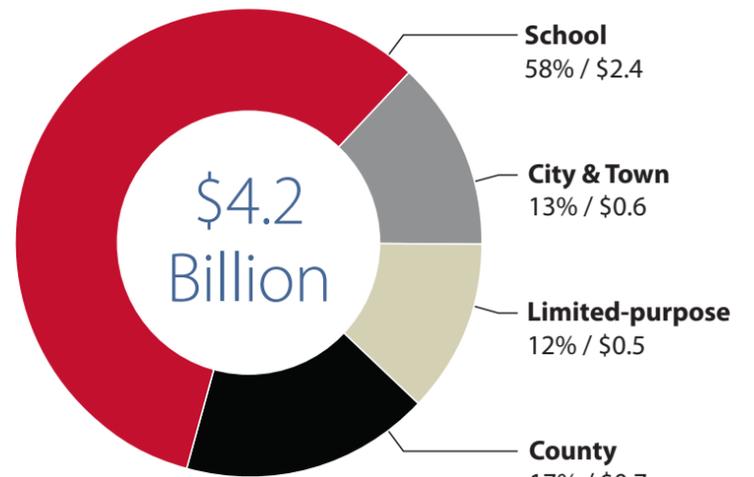
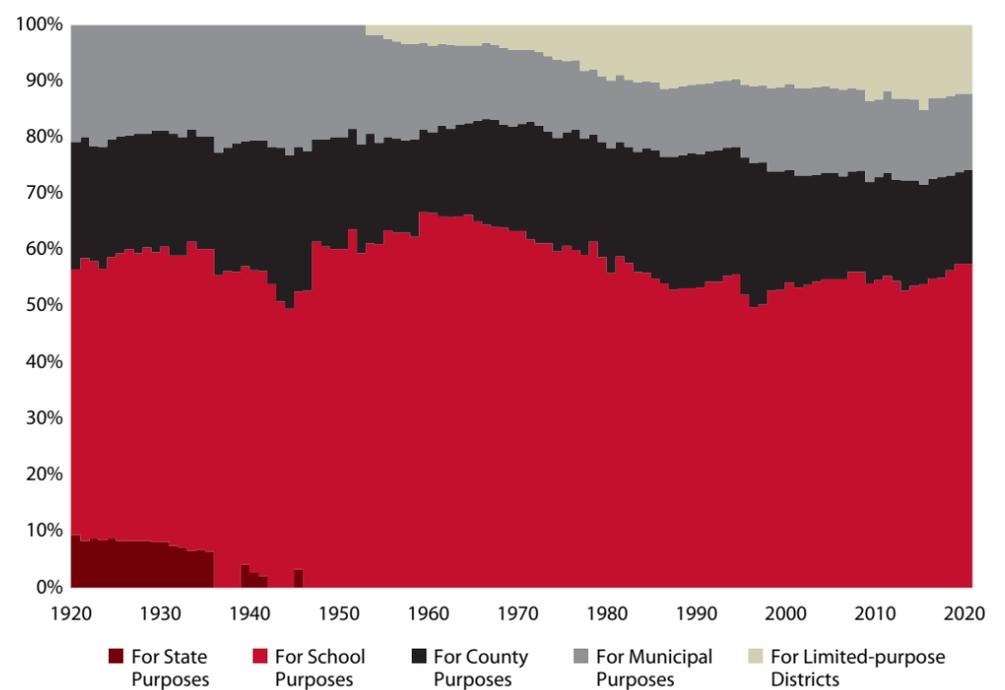


Figure 2: Share of Utah Property Taxes Charged by Purpose, 1920–2020

Limited-purpose District Property Taxes Continue to Expand

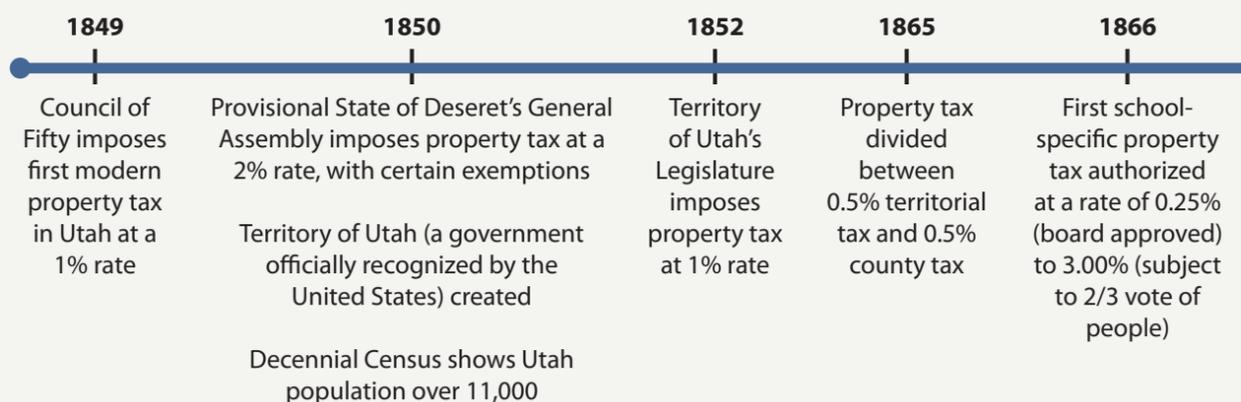


Notes: "For School Purposes" includes state-imposed property taxes levied for school purposes until 1973. "For County Purposes" includes property taxes levied for local road purposes. Prior to 1953, limited-purpose district taxes were included with municipal taxes.

Source: Utah Foundation and Utah State Tax Commission

“The history of taxation in early decades of the Territory and State of Utah is largely a history of the property tax, its uses, assessment levels, and application to different types of property.”

—Jewell Rasmussen



Property Tax Features

- Locally controlled revenue enhances local autonomy
- Funds many services related to property
- Stable base and revenues
- Tax on certain assets (real property and certain tangible personal property)
- Broad base and low rate
- Direct, visible, and transparent
- Provides security pledge for general obligation debt, which minimizes borrowing costs
- More economically efficient than many alternatives
- Government bears most administrative burden (unlike income and sales taxes)
- Real property is immovable

Broad Base and Low Rate

Of Utah's major taxes, the property tax has the broadest base (taxable values total about \$350 billion) and the lowest rate (statewide average about 1.2%). Since enactment of Utah's Truth in Taxation system in 1985, the property tax base tracks well with the economy, averaging about 200% of personal income (see Figure 3).

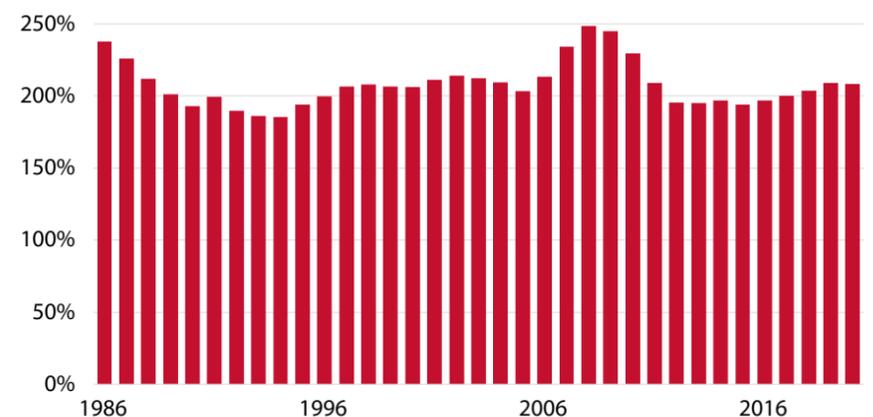
Stability

Tax revenues change over time due to both economic changes (such as population growth, inflation, and real GDP growth) and policy changes (such as tax decreases or increases through tax base or rate changes). Both the comparatively stable nature of the broad and immobile property tax base and the design of Utah's property tax system contribute to greater revenue stability.

The stability of the property tax allows the State of Utah and its local governments to borrow money at lower interest rates than possible with pledges of other revenue sources. When issuing general obligation bonds, governments pledge property tax as collateral guaran-

Figure 3: Utah Property Tax Base as a Percent of Personal Income, 1986–2020

Property Tax Base Paces with the Economy



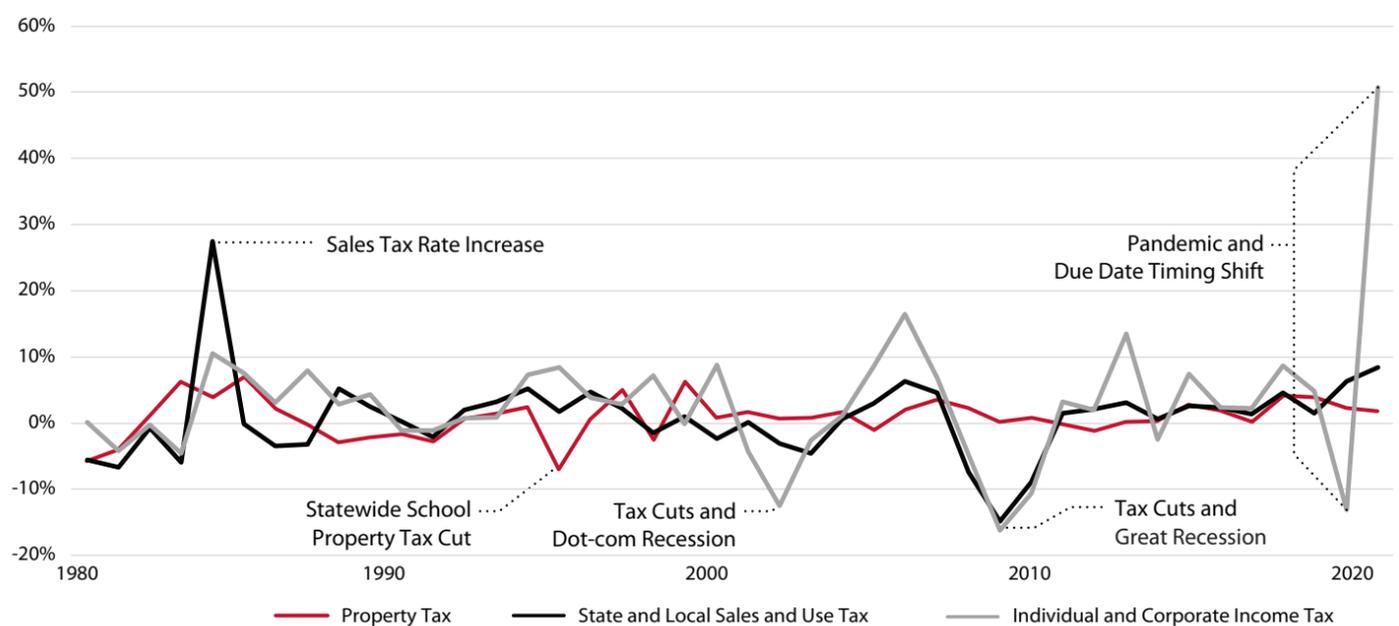
Source: Utah State Tax Commission and U.S. Bureau of Economic Analysis

teeing repayment. However, other sources can actually repay the bonds. For example, although the State of Utah pledges to impose a property tax if required, it actually repays general obligation bonds with other sources (primarily sales tax revenue).

Figure 4: Year-Over Change in Tax Revenue per Capita for Major Utah Taxes, 1980–2021

Property Tax is the Most Stable Major Tax

Source: Utah State Tax Commission and Kem C. Gardner Policy Institute

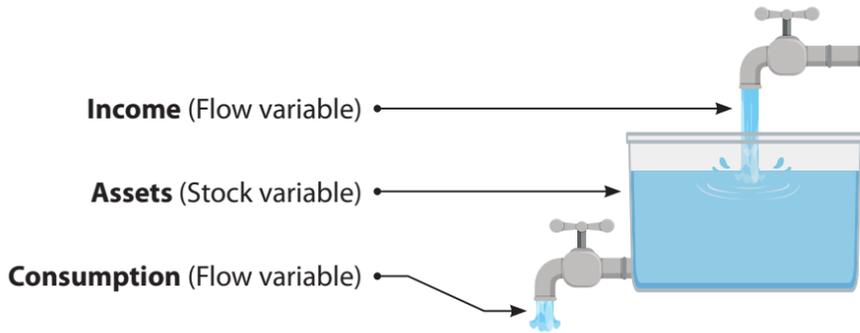


Year	Event
1869	Transcontinental railroad completed at Promontory
1878	Utah's property tax base expands as part of national push toward tax universality and uniformity in "general" tax on most tangible and intangible property
1880	Decennial Census shows Utah population first surpasses 100,000
1890	Territorial Legislature passes Free Public School Act, Salt Lake City School District created as first public school district in Utah
1891	Salt Lake High School (now West High School) opens as first high school in Utah
1894	U.S. Congress passes Enabling Act, beginning the process for Utah to become a state
1896	Utah becomes the 45th state admitted to the United States "General" property tax provisions embedded in original Utah Constitution, including uniform taxation of all property not exempt under its provisions
1900	Constitutional amendment expands property tax exemption for irrigation and for the indigent poor

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Tax on Assets

The property tax is unique among major taxes because it taxes assets in the form of real property or certain tangible personal property (a stock variable) instead of income or consumption (which are flow variables). The stock nature of the property tax base adds to its stability as a revenue source, provides a hedge against other more volatile revenue sources based on income and consumption flows, and results in less economic distortion.



Economic Efficiency

Of the major taxes, the property tax is the most economically efficient, in large part due to the immobility of real property. Property taxes on land in particular minimize economic drag and encourage efficient land use (at the highest and best use).

Property Tax Relief Programs Help Mitigate Potential Challenges

The property tax also faces several potential challenges. First, property tax bases can differ dramatically across local governments. This creates unequal access to funding for necessary services, such as K-12 education, which has prompted successful court challenges in other states. Second, accurate property assessment is difficult and necessary for a fair tax. This challenge can be mitigated with better data, staff, and assessment tools for assessors to ensure they make unbiased fair market value determinations. Third, administrative burdens exist, particularly for small business personal property. Finally, property taxes on illiquid assets can create potential cash flow strains.

Notably, many of the property tax's strengths also create its challenges. For example, paying the property tax all at once in a single annual bill can create financial challenges for taxpayers who do not set aside funds throughout the year, such as through an escrowed mortgage or personal savings. Yet this strong visibility and related political accountability are also among the property tax's strengths. Similarly, government bearing most of the property tax's administrative burden minimizes that expense for firms and households, but sometimes leaves taxpayers wondering how their tax is determined.

Property Tax "Circuit Breaker"

Some people, particularly the elderly, may be house rich and cash poor. That is, the flow of income to pay the property tax may not align with the person's stock of real property wealth. The Utah Constitution authorizes the Legislature to abate property taxes of the poor and certain other individuals, such as those qualifying for certain military-related exemptions. The Legislature can also offset other taxes like income taxes, and taxes are sometimes deferred. About 40,000 Utah property owners benefit from various property tax relief programs.

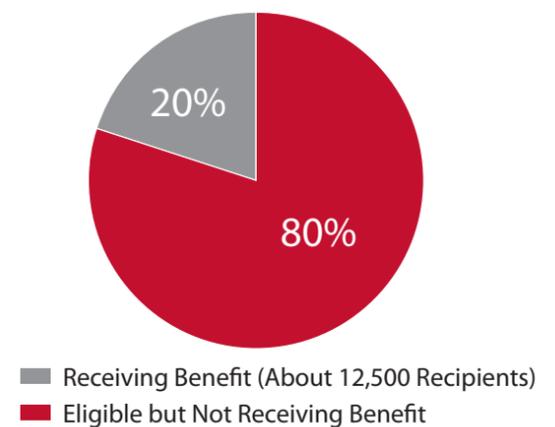
Under the circuit breaker, qualifying property owners (over age 65 with income under about \$35,000) can receive credits to offset property tax amounts. For example, the maximum credit (for seniors with incomes under about \$12,000) is nearly \$1,770 on a \$300,000 property at the statewide average tax rate, largely offsetting the entire \$1,930 tax. This total consists of a nearly \$1,070 credit plus an additional 20% discount from fair market value (worth a little over \$700 on a \$300,000 property). These credits phase out as income increases. For example, a property owner with a \$25,000 income qualifies for a roughly \$1,190 benefit, leaving about \$740 in tax due. Credits are also available for renters, presumably under the economic assumption that property taxes are passed onto renters in rent amounts.

Figure 5 shows estimates of those qualifying for and receiving the circuit breaker credit. Roughly 20% of those who qualify for the circuit breaker claim it.

Figure 5: Estimated Share of Taxpayers Qualifying for and Receiving Circuit Breaker

Most Eligible Seniors Do Not Claim Circuit Breaker

Source: U.S. Census Bureau and Utah Tax Commission



Policymakers contemplating property tax relief face tradeoffs between targeted and untargeted approaches. For example, while the primary residential exemption benefits needy property tax owners by reducing taxes on all residential property, it also benefits many who may not need the assistance. Conversely, the circuit breaker is highly targeted to seniors in need. However, it does not address other low-income households. Other abatements or deferrals may assist these taxpayers. Additional or different forms of outreach may help those who qualify to receive currently available relief.

1906	1913	1918	1920	1926	1928	1929
Bingham Canyon Mine begins operations	Board of Commissioners finds that property assessment ratios range from 9% to 70% of market values and recommends assessment system improvements, including mandatory sales price disclosure	Constitutional amendment provides property tax exemptions for homestead (\$250) and certain personal property (\$100)	K-12 school enrollment surpasses 100,000	Western Air Express begins commercial airplane flights from Salt Lake City	State Board of Equalization & Assessment recommends reclassifying all taxable real estate every five years	Great Depression begins, resulting in large-scale property tax defaults
Utah Constitution amended to provide property tax exemption for mortgages						

Our State's Challenge:

Preserving quality of life amidst relentless growth and change

Growth and change create both tremendous opportunities and challenges that require adaptation, innovation, and realignment. Though not without complications, the property tax provides a stable and economically efficient revenue source with many underappreciated economic benefits to help address the State's growth challenges.

Utah's population and economy continue to grow. This growth creates tremendous opportunities for Utahns. But growth also creates challenges. Some growth challenges stem from interactions of topographical and other physical constraints with legacy land, transportation, air, and water use patterns. Other challenges arise because outdated fiscal and operational systems poorly align with the modern economy. Yet transformational economic changes continue unabated. These pressures require constant adaptation, innovation, and realignment of Utah's fiscal systems to ensure essential services continue.

Utah's leaders face critical fiscal design decisions as they generate and spend public funds for services vital to Utah's high quality of life, such as education, transportation, and basic municipal services such as sewer, water, and garbage collection.

Importantly, all government revenue sources are not created equal. Different ways of paying for government services create differing economic effects. For example, policymakers may wish to consider the extent to which local government fiscal structures influence municipal zoning decisions.

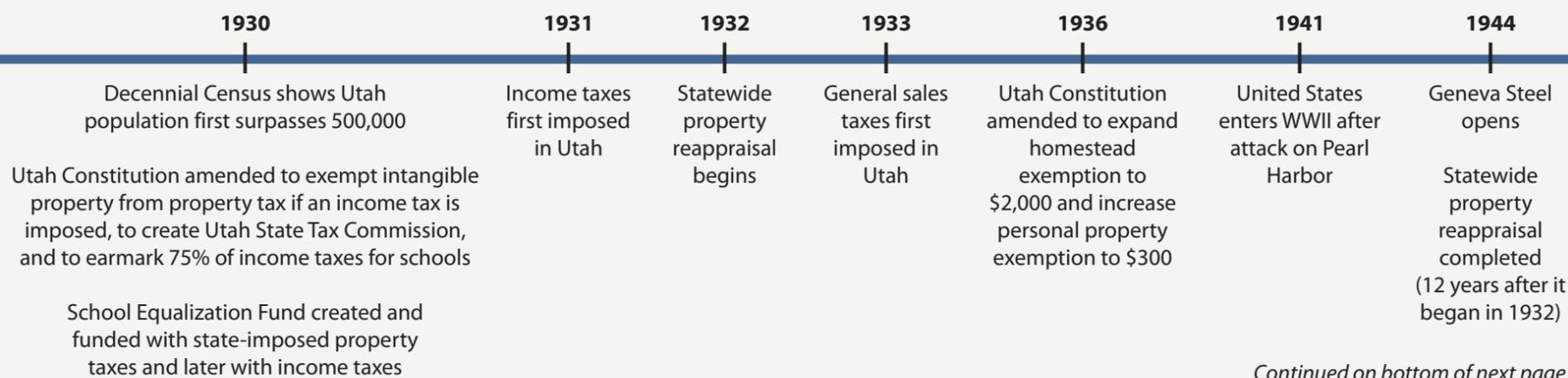
Taxes generate revenue to supply often-unseen essential services that underpin the economy. But taxes can also harm economic efficiency, especially if poorly designed and implemented. This economic inefficiency (or "deadweight loss") occurs when tax-induced higher prices reduce economic activity from the economically efficient level. In addition to user fees, well-designed property taxes (particularly on land) can minimize economic inefficiency relative to alternative tax revenue sources.

To What Extent Do Local Fiscal Incentives Influence Municipal Zoning Decisions? Are Your Fiscal Incentives Aligned With Your Policy Objectives?

Sales and Use Tax
Retail-driven

Property Tax
Business Property
Taxed at 100% of Value

Property Tax
Primary Residence
Taxed at 55% of Value



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Four Public Finance Opportunities and Challenges

1 Relentless Growth

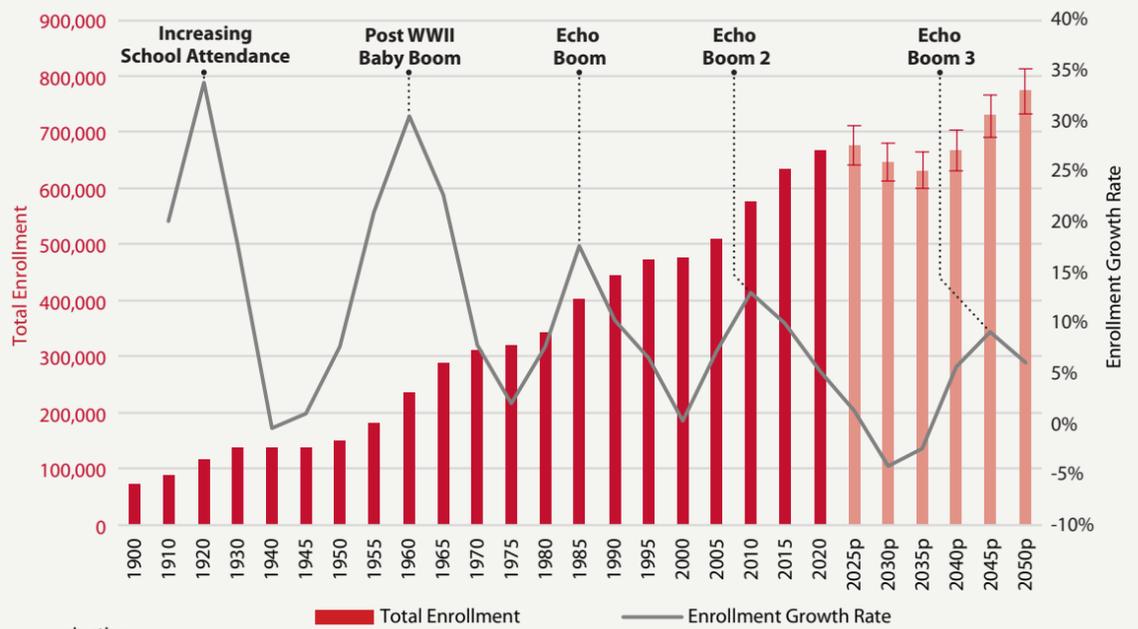
Utah's K-12 student population remains on a long-term growth trajectory, even with near-term slowing.

Although various factors, including the downside demographic wave of the Baby Boomer Echo Boom 2, will moderate internal school-age population growth over the short-term, long-term population projections forecast continued growth in Utah's school-age population. This moderating short-term internal growth could be offset by higher in-migration.

These waves of K-12 students subsequently place demands on Utah's higher education system.

Figure 6: Utah K-12 School Enrollment, 1900–2050

School Enrollment Continues Increasing



p = projection

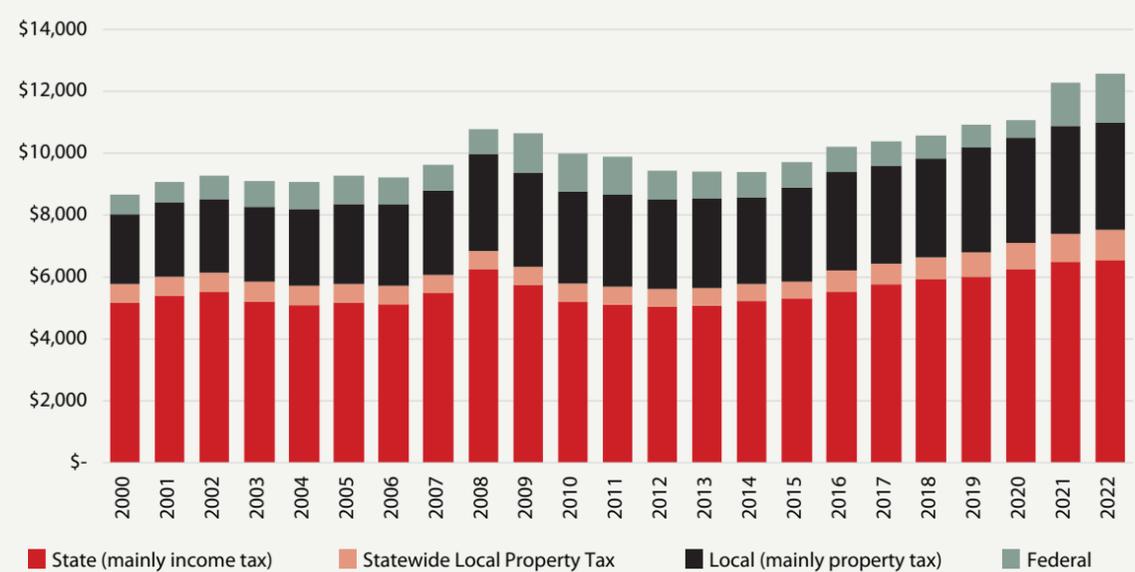
Source: University of Utah Bureau of Economic and Business Research (BEBR) 1960 Review of the Utah Economy, BEBR 1976 Statistical Abstract of Utah, 2021 Economic Report to the Governor, and Kem C. Gardner Policy Institute 2020–2060 State and County Projections

2 Changing Cost Structures

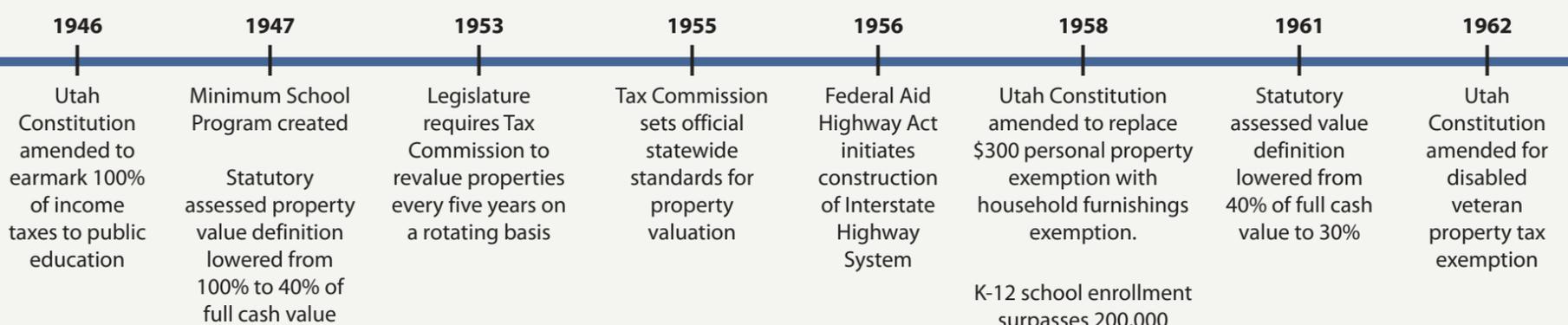
Utah's school population and systems continue to become more diverse in different ways. Along with its many strengths, this increasing diversity influences the demand for services, such as educating English learners, economically disadvantaged students, and providing more individualized education, including for students with disabilities. Of Utah K-12 students in FY 2021, approximately 30% were economically disadvantaged (qualify for free/reduced lunch), 8% were English learners, and 12% were students with disabilities. Funding newer delivery systems such as charter schools and online instruction also creates funding challenges.

Figure 7: Real (2021 dollars) Total Per Student Funding, 2000–2022

Real Per Pupil Funding Increased in Recent Years, Largely from State Increases



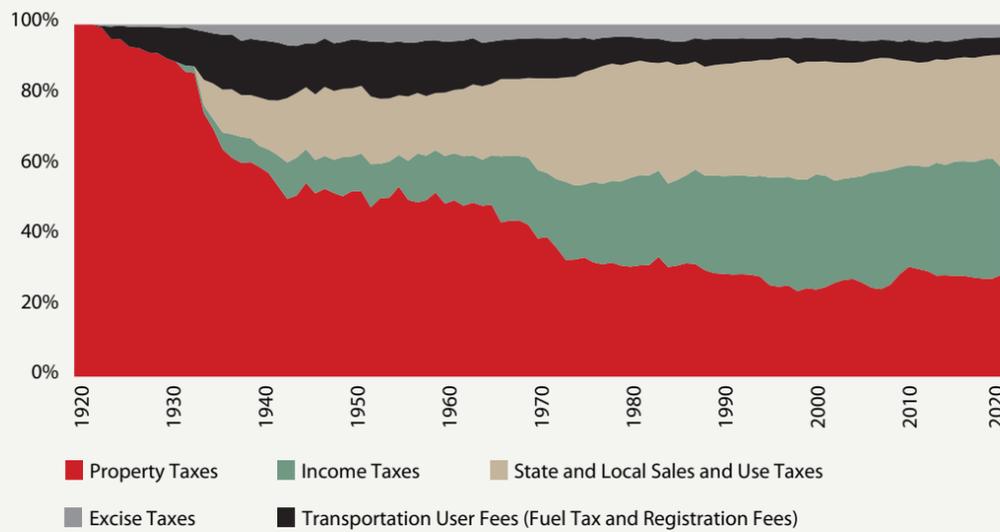
Source: Governor's Office of Planning and Budget



3 Transformational Economic Changes

Figure 8: Funding Shares for Utah’s Major State and Local Tax Revenue Sources, 1920–2020

Property Tax is One of Utah’s Three Major State and Local Revenue Sources



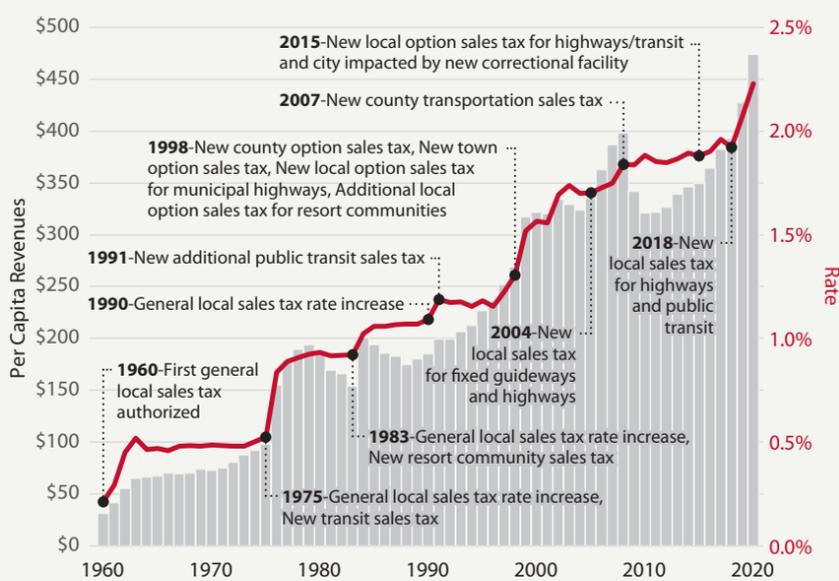
Source: Utah State Tax Commission

The modern economy carries with it transformational changes impacting Utah’s fiscal structures. As policymakers contemplate balancing the composition of their revenue portfolio going forward, taxes on income and consumption will likely remain more volatile than the property tax and subject to aggressive national and global competitive pressures. In addition, traditional fuel taxes will likely continue deteriorating due to technology-driven changes. Moreover, the increasing shift of wealth from taxed real and personal property to untaxed intangible property (such as intellectual property) shifts tax burdens downward to those at the lower end of the economic spectrum. Policymakers may wish to consider how these trends affect the long-term viability and equity of Utah’s overall tax system.

4 Opportunity Costs and Funding Tradeoffs

Figure 9: Real (2020 dollars) Per Capita Local Sales Tax Revenue and Average Local Sales Tax Rates, 1960–2020

Local Sales Tax Revenues Tie Closely to Rate Increases, Primarily for Transportation



Source: Utah State Tax Commission

Policymakers continuously face tradeoffs as they make policy decisions. One example is local officials selecting the composition of their revenue portfolio. When officials perceive excessive political or statutory constraints on property taxes to fund core local government services, this creates financial pressure to seek “easier” revenue sources, even in situations when property taxes are appropriate. This could:

- Incentivize unbalanced municipal zoning decisions, as municipal fiscal incentive structures encourage retail-driven sales taxes and property taxes on fully taxed commercial property over residential property taxed at 55% of market value (see page 5).
- Create pressure for the Legislature to increase income tax rates for education.
- Create pressure to increase sales tax rates on a base that increases, but has historically failed to pace with economic growth.

<p>1964</p> <p>Utah Constitution amended to provide exemption for property held for resale in another state</p>	<p>1966</p> <p>Utah population surpasses 1 million</p> <p>Prominent economist Jewell Rasmussen recommends equalizing school revenues using property tax from certain non-residential property</p>	<p>1967</p> <p>K-12 school enrollment surpasses 300,000</p>	<p>1968</p> <p>Utah Constitution amended to provide exemption for property held for resale within the state and to reduce farm valuations to be based on farm production value rather than fair market value</p>	<p>1969</p> <p>Various assessment improvements enacted (including increased training and certification requirements) and another requirement for Tax Commission to oversee statewide assessment on a five-year rotating basis</p>	<p>1970</p> <p>Utah Transit Authority (UTA) founded</p>	<p>1974</p> <p>State-imposed portion of statewide school property tax reduced to zero (local portion continues)</p>
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K-12 School Funding

“School funding and property taxation are so interconnected that those who are concerned about school finance find themselves examining the role of the property tax, and those who are interested in property taxation inevitably find they need to consider school finance questions.”

–Daphne Kenyon

Taxes vs. User Fees for Education

Prior to the creation of the nation’s public education systems, user fees privately funded most education, with religious and charitable groups, and those wealthy enough to afford education hiring tutors and other specialized teachers. As early as 1866 in Utah, this approach changed as people increasingly came to view education’s many positive externalities as critical to societal and economic wellbeing and began to support education through education-specific tax funding.

Today, different school funding elements lie at different points along a continuum between a full user fee funding model and full statewide equalization through taxes. Many secondary schools impose direct user fees borne by students and their families for purposes such as art classes and athletics. Moving toward more equalized school funding elements, certain school property tax

Over time, sizable cuts in the equalized statewide school property tax shifted the school property tax burden to unequal local property taxes, leading to property tax funding discrepancies for both taxpayers and students.

levies are uniformly imposed within each school district’s geographic area, but each school district imposes different tax rates. Other school funding components are equalized statewide, such as statewide income taxes, and the portion of school property taxes imposed statewide.

Key Fiscal Policy Questions

Utah’s school property taxes used to be more equalized statewide under the Minimum School Program than they currently are. Over time, sizable cuts in the equalized statewide school property tax shifted the school property tax burden to unequal local property taxes, leading to property tax funding discrepancies for both taxpayers and students.

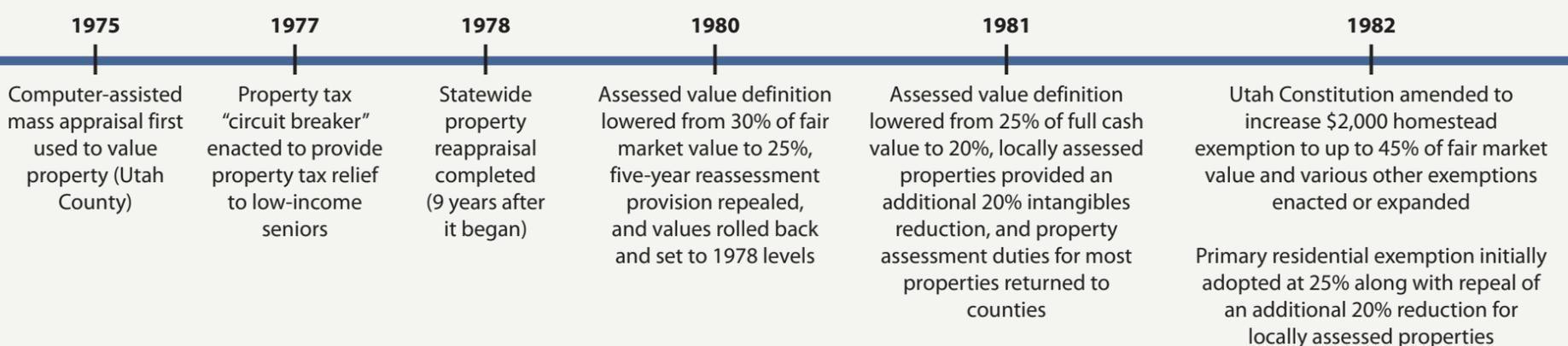
Policy questions elected officials may wish to consider include:

- **To what extent should a student’s educational opportunities depend on the student’s geographic location?**
- **How should the tax burden for educating students throughout Utah be shared?**

Table 1: Individual and Societal Benefits of Education

INDIVIDUAL BENEFITS	SOCIAL BENEFITS
<ul style="list-style-type: none"> ■ Increased earnings ■ Increased economic mobility ■ Healthier lifestyle ■ More likely to receive employer-provided health insurance ■ More likely to do educational activities with their children 	<ul style="list-style-type: none"> ■ Increased GDP ■ Decreased crime ■ Increased volunteerism ■ Increased voter participation ■ Increased tax contributions ■ Lower unemployment rate ■ Reduced reliance on public assistance ■ Reduced healthcare costs ■ Decreased poverty rate

Source: Kem C. Gardner Policy Institute based on literature review



How Do We Pay for Utah's Public Schools?

The Utah Constitution identifies education as a core function of government to be funded with taxes, charging the Legislature with establishing and maintaining a statewide education system that is (a) open to all children in the state and (b) free, except that secondary school fees may be charged. The Utah Constitution further requires that revenue from taxes on income or intangible property be used solely for public education, higher education, and (with a recently approved amendment) to otherwise support children and individuals with a disability. This constitutional framework outlines Utah's general public education funding contours.

The Legislature carries out this constitutional mandate primarily through the Minimum School Program. The Legislature also funds other programs and authorizes school districts to impose optional local property taxes funding public education, subject to certain rate caps and revenue use limitations.

How Much Money from All Sources Goes to Public Education?

Total Funding

Total FY 2022 K-12 school funding from all sources totals an estimated \$8.5 billion, including about \$600 million in COVID-related one-time funding. State income taxes and local property taxes are by far the largest public education funding sources. Other significant revenue sources include federal funds, various fees, and miscellaneous sources such as interest income.

The Utah Constitution identifies education as a core function of government to be funded with taxes:

“ The Legislature shall provide for the establishment and maintenance of the state's education systems including:

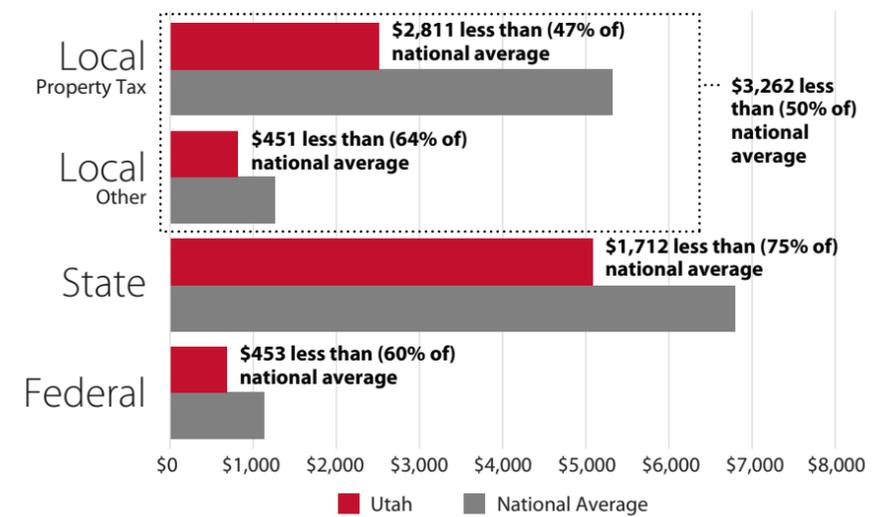
(a) a public education system, which shall be open to all children of the state ... Public elementary and secondary schools shall be free, except the Legislature may authorize the imposition of fees in the secondary schools.

(b) All revenue from taxes on intangible property or from a tax on income shall be used: to support the systems of public education and higher education as defined in Article X, Section 2; and to support children and to support individuals with a disability. ”

Source: Excerpts from Utah Constitution, Articles X and XIII

Figure 10: Total Per Pupil Revenues by Funding Source, 2018

Lower Property Tax Accounts for Majority of Utah's Lower Per-Pupil Funding



Source: National Center for Education Statistics

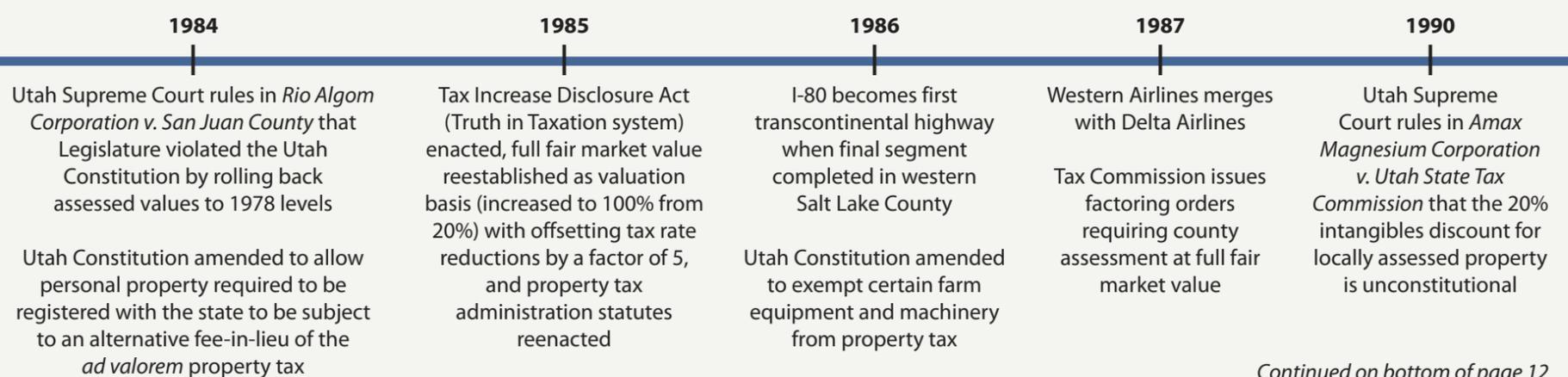
National Comparisons

While national comparisons can be complex due to differences among states in student populations, household composition, local cost of living, and other factors, they can provide a general sense of differences among states. Figure 10 shows the latest (2018) national comparisons of per pupil revenues by major funding source. As of three years ago, Utah's per pupil revenues were about \$5,400 less than the national average. Notably, local property taxes are central to this sizable discrepancy, as the largest share of this difference (over \$2,800 per pupil) is due to school property taxes at less than half the national average.

Property Tax Base Varies Dramatically Among School Districts

A foundational public education funding challenge is that local property tax values per student vary dramatically throughout the state, as shown in Figure 11. Disparities occur for various reasons, including differences in overall market property values and the mix of fully taxed business property and partially exempt residential property in different areas. Differences in property tax base composition are shown in Figure 12. As detailed in the following section, the Minimum School Program partially offsets these property tax disparities through a partially equalized funding system.

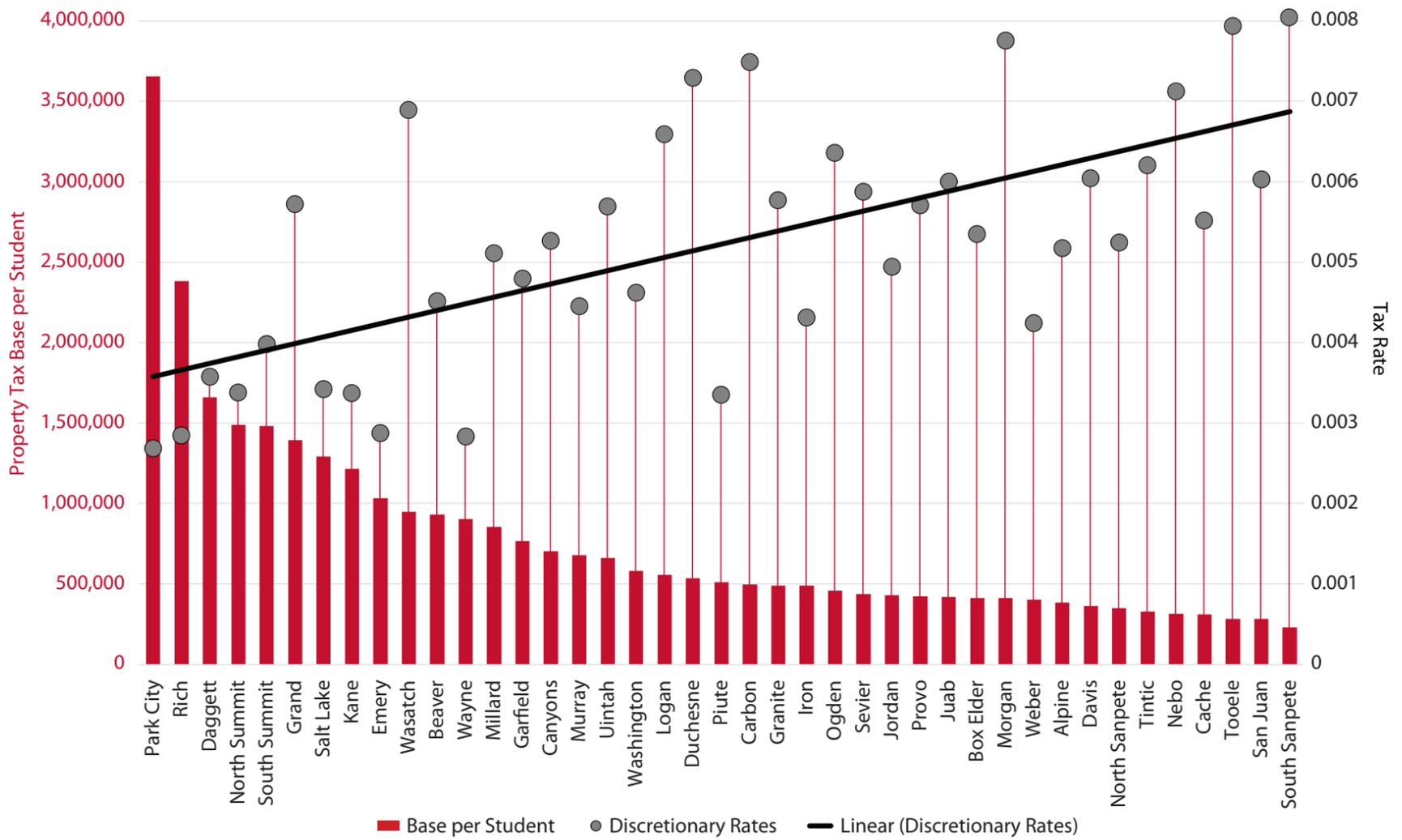
Importantly, these disparities shift over time. As Figure 13 illustrates, school districts that previously constituted a larger share of the property tax base in the past may constitute a smaller share later. In 1970, school districts had a more evenly distributed share of property tax value per student than existed in 2020.



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Figure 11: School District Property Tax Base per Student and Discretionary Tax Rates, FY 2020

Massive School Property Tax Base Disparities Influence Tax Rates

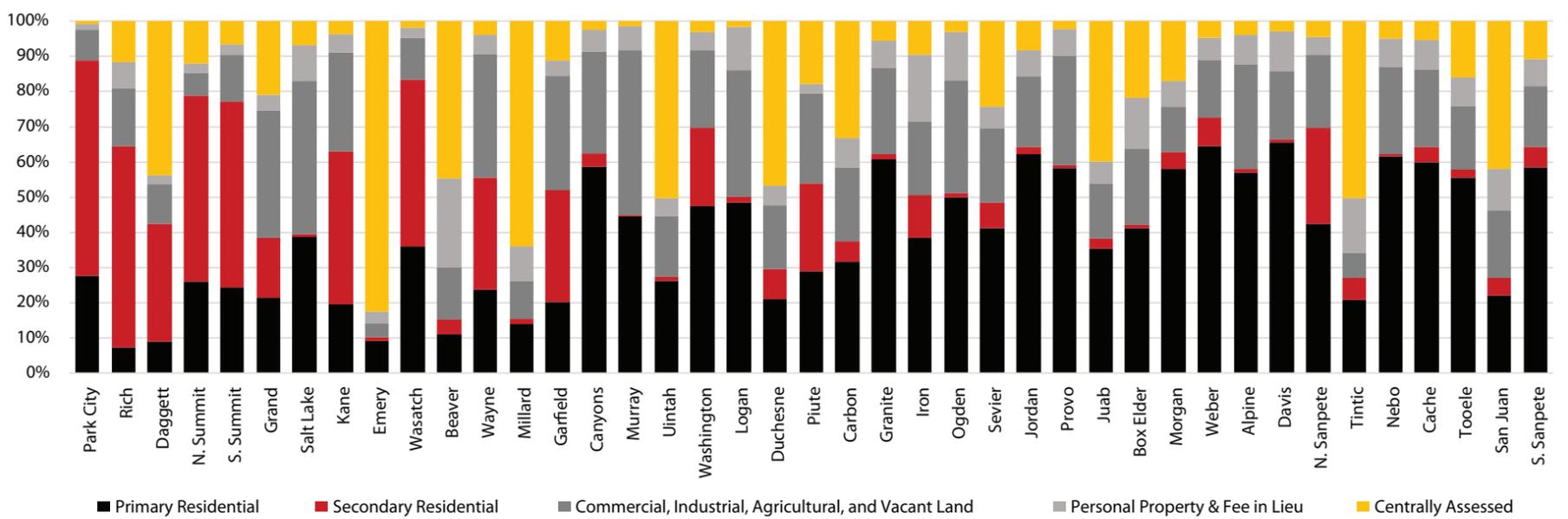


Note: Figure 11 is sorted by property tax base per student. Figures 12, 13, and 20 are sorted in the same order to simplify comparison across figures. Discretionary rates exclude the statewide mandated rate (basic levy).

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

Figure 12: Property Tax Base Composition by School District, 2020

Second Homes, Centrally Assessed Property, and Business Personal Property Strongly Influence School Property Tax Base Discrepancies



Note: As explained later, "centrally assessed properties" such as mines, utilities, airlines, and railroads have their values estimated centrally by the Utah State Tax Commission rather than by local county assessors.

Source: Utah State Tax Commission

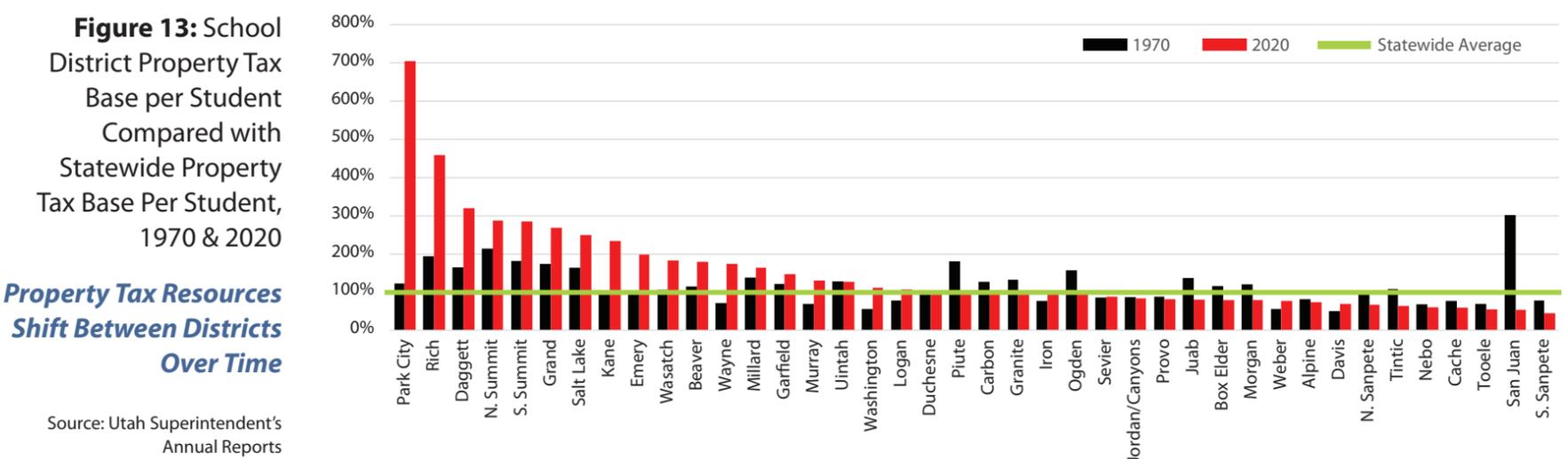


Figure 13: School District Property Tax Base per Student Compared with Statewide Property Tax Base Per Student, 1970 & 2020
Property Tax Resources Shift Between Districts Over Time

Source: Utah Superintendent's Annual Reports

How Does the Minimum School Program Partially Equalize Property Tax Disparities?

Originally enacted in 1947, with a major update in 1973, Utah's long-standing Minimum School Program connects school property taxes and state funds (mainly income taxes). Under this partially equalized funding program, each school district imposes certain property taxes, which unlocks district eligibility for state funding.

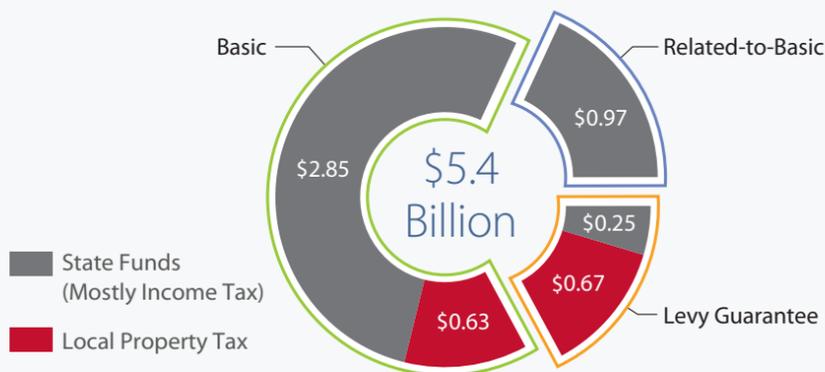
How Does the Minimum School Program Work?

Three major programs comprise the Minimum School Program (nearly \$5.4 billion in FY 2022):

- 1 Basic School Program (\$3.5 billion)** – The largest Minimum School Program component, the Basic School Program, is fully equalized for both taxpayers through a uniform statewide property tax (“basic levy”) and income tax, and for students through uniform weighted pupil unit (WPU) allocations
- 2 Related-to-Basic Program (\$1.0 billion)** – State-funded categorical programs allocated for specific purposes
- 3 Voted and Board Levy Guarantee Program (\$0.9 billion)** – A partially equalized program that provides state funds when school districts with a lower property tax base per student impose property taxes up to a specified amount

Figure 14: Minimum School Program Funding, FY 2022 (\$ in billions)

Property Taxes and State Funds Combine to Support the Minimum School Program



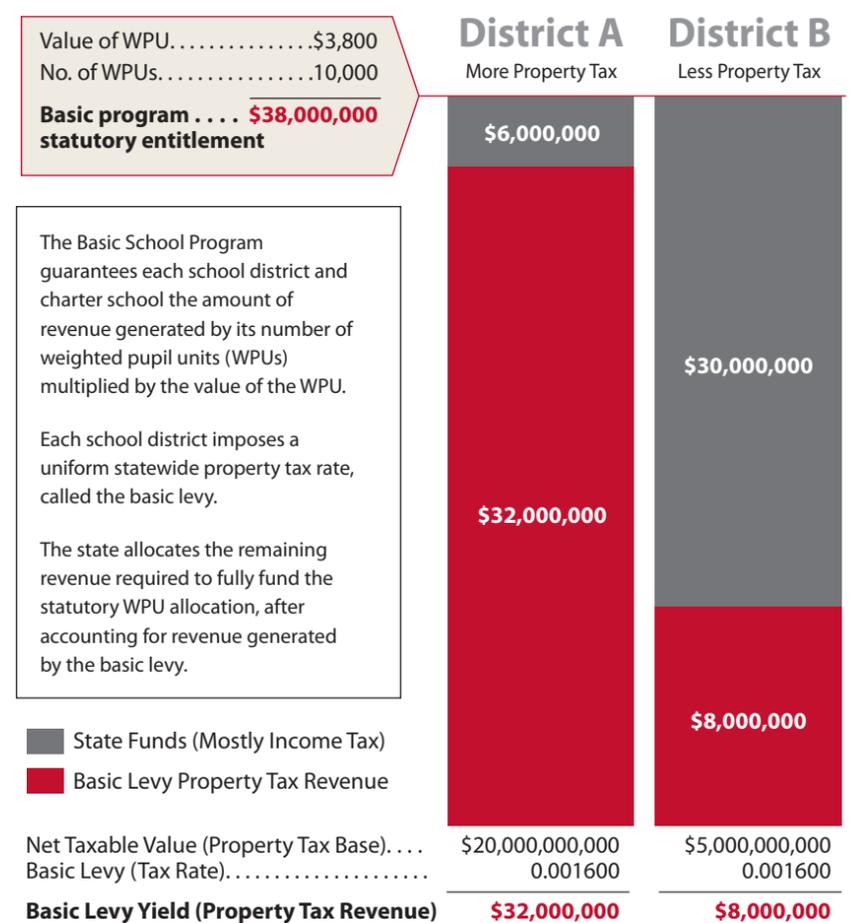
Source: Office of the Legislative Fiscal Analyst

1 How Does the Basic School Program Work?

The Basic School Program (the largest component of the Minimum School Program) is an equalized statewide program (a) funded through statewide property tax (“basic levy”) and income tax revenues, and (b) that allocates funds to school districts and charter schools based on an equalized weighted pupil unit (WPU) methodology. In other words, the Basic School Program fully equalizes both the revenue and spending sides of the budget.

Figure 15: Basic School Program for Two Hypothetical School Districts

Basic Program Helps Equalize Property Tax Disparities



Source: Kem C. Gardner Policy Institute

Figure 16: Estimated Share of Basic School Program Cost Funded by a School District's Basic Levy Revenue and State Funds, FY 2021

For the Basic School Program Portion of School Funding, State Funding Fully Equalizes Property Tax Disparities

Source: Kem C. Gardner Policy Institute analysis of Utah State Board of Education Data

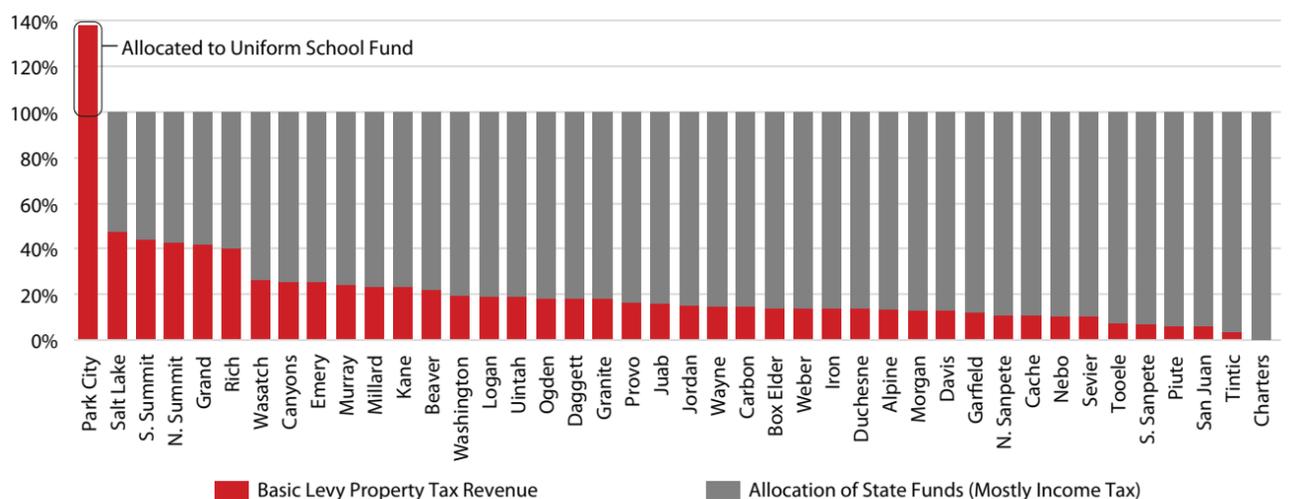
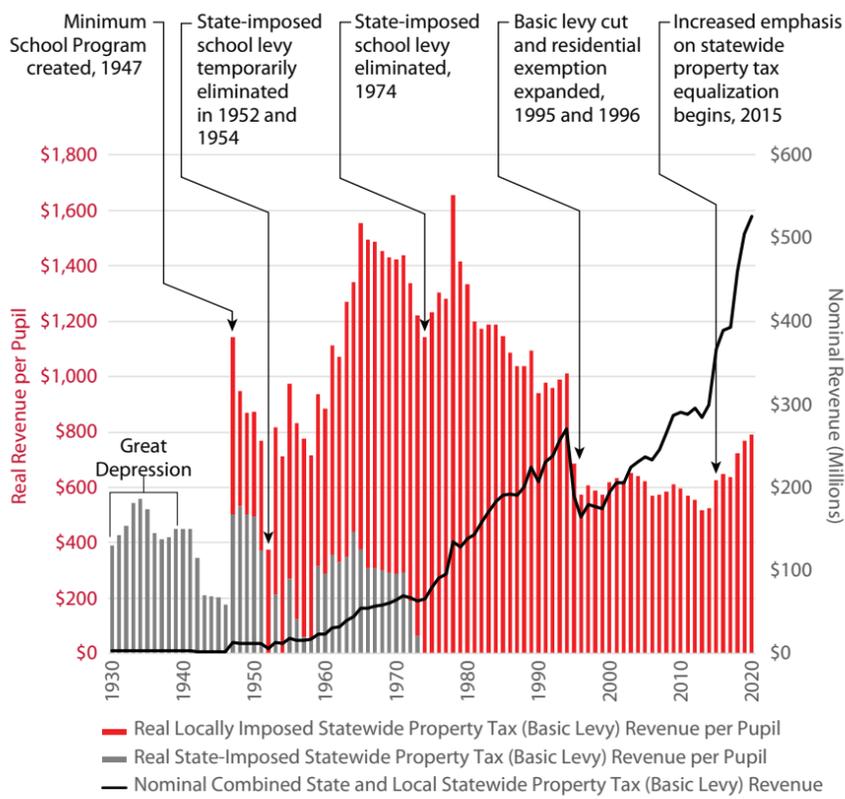


Figure 17: Total School Basic Levy Revenue (Nominal) and Real Per Pupil Basic Levy School Property Tax Revenue, 1930–2020

With Recent Changes, Real Basic Levy Per Pupil Revenues Up Somewhat from Historical Lows



Source: Utah Superintendent's annual reports and Utah Foundation

Statewide Property Tax

With the uniform statewide property tax rate (which makes up about 23% of school property taxes and 13% of all 2020 property taxes), property with the same taxable value is taxed uniformly wherever located in the state.

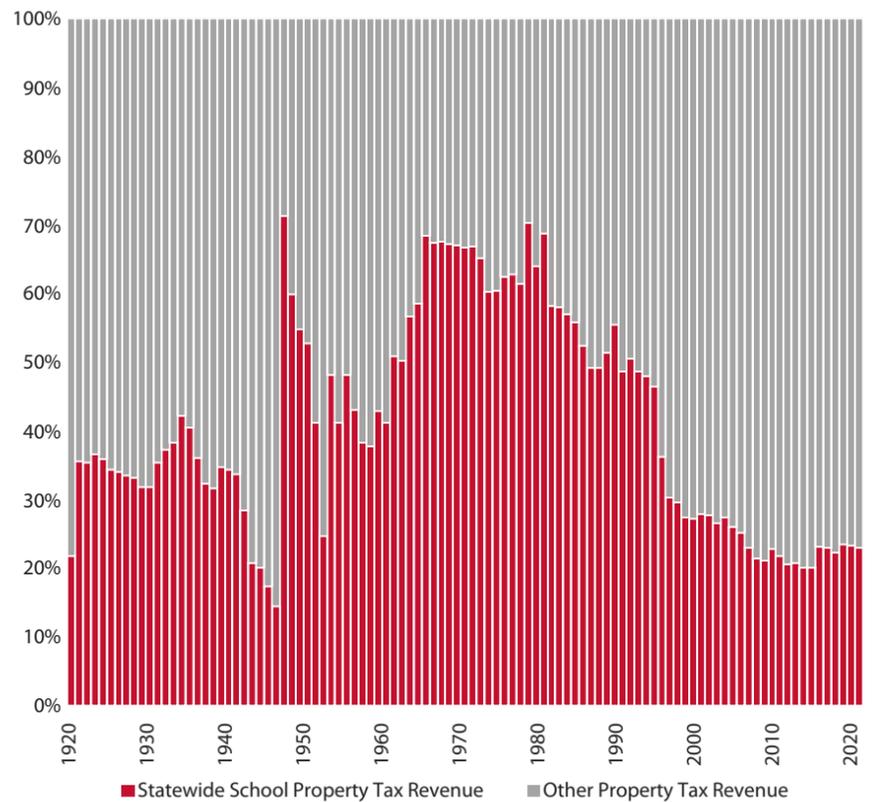
As Figure 17 shows, until recent increases, real per pupil statewide school property taxes were near Minimum School Program lows, and at levels similar to those imposed during the Great Depression.

Because this uniform property tax forms the foundation of Utah's equalized school funding system, the integrity and fairness of the fully equalized Basic School Program rests on the uniform and equal assessment of property in each county statewide. This requires county assessors and the State Tax Commission to keep property values accurate. If assessors undervalue one area of the state, this results in an unfair income tax subsidy from the rest of the state.

Levy | levē
1. an authorized tax rate imposed on property

Figure 18: Statewide and Discretionary Local Property Tax Revenue as a Share of Total School Property Tax Revenue, 1920–2020

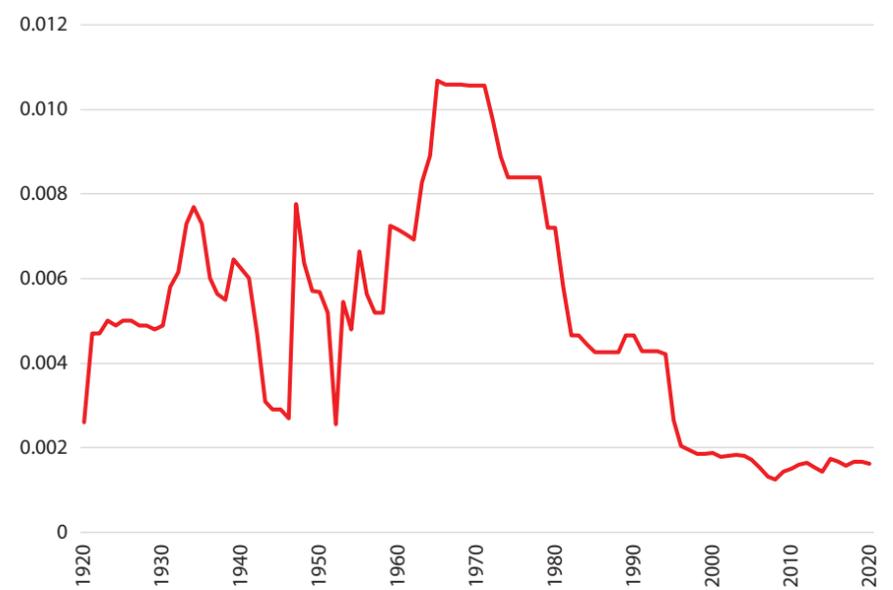
Basic Levy Share of School Property Tax Near Lowest Level Since 1947 Creation of Minimum School Program



Source: Utah Foundation, Utah State Tax Commission, and Utah Superintendent's annual reports

Figure 19: Statewide School Property Tax Basic Levy Rate, 1920–2020

Basic Levy Rate Remains Near Historical Lows



Rate adjusted for changes in statutory assessment levels, which were below 100% from 1947 to 1986.
Source: Utah Superintendent's annual reports

1991	1992	1993	1994	1995	1996
Primary residential exemption set at 29.75% of fair market value, "fee-in-lieu" property tax created for certain property required to be registered with the state at 1.75% of value	Primary residential exemption set at 29.50% of fair market value	Facilitated by computer-assisted mass appraisal, assessors required to annually update values for every property based on general market conditions, with a property-specific update every five years	Primary residential exemption increased to 32% of fair market value	Utah average daily vehicle miles travelled surpasses 50 million Primary residential exemption increased to 45% of fair market value, school statewide property tax rate reduced by nearly 40% (0.004220 to 0.002640)	Utah population surpasses two million

Statewide Income Tax

Unlike some states that authorize local income taxes, Utah's income tax is uniform statewide. In other words, like the basic levy, given a particular taxable amount, the tax will be the same wherever in the state the taxpayer lives.

Weighted Pupil Unit (WPU) Allocation Methodology

School districts and charter schools generate WPUs based on their student and local education agency (LEA) characteristics. For example, most students in grades 1–12 generate 1.00 WPU, while kindergarten students generate 0.55 WPUs. Students qualifying for special education services, who are English learners or are economically disadvantaged (on free/reduced lunch) generate additional WPUs. Discussions continue around updating the WPU allocation methodology to better reflect service demands for different student characteristics, such as additional allocations for economically disadvantaged students and students in rural districts with diseconomies of scale. A major recent State Board of Education study addresses these issues.

2 How Does the Related-to-Basic Program Work?

The Related-to-Basic Program (nearly \$970 million in FY 2022) consists of state-funded categorical programs focused on particular student populations or other directed purposes. Examples include charter school local replacement funding, pupil transportation, students at risk of academic failure, educator salary add-ons, arts education, and teacher supplies, among many others.

3 How Does the Voted and Board Levy Guarantee Program Work?

Unlike the fully equalized Basic School Program, other discretionary local property taxes remain only partially equalized, resulting in sizable school district funding disparities. Under the Voted and Board Levy Guarantee Program (nearly \$920 million in FY 2022), the state incentivizes local property tax effort for discretionary local taxes by allocating state funds (about \$250 million) to ensure local property taxes, when combined with state funds, generate certain per-student revenue levels (see Figure 20). Not all districts impose the same tax rates, thus the overall burden on taxpayers varies by district. Figure 21 shows the property tax rates charged by district.

Figure 20: Funding Per Student from Board and Local Levies and State Matching Funds by District, FY 2021

State Revenues Partially Equalize Disparities in Discretionary School Property Taxes

Source: Kem C. Gardner Policy Institute analysis of Utah State Board of Education data

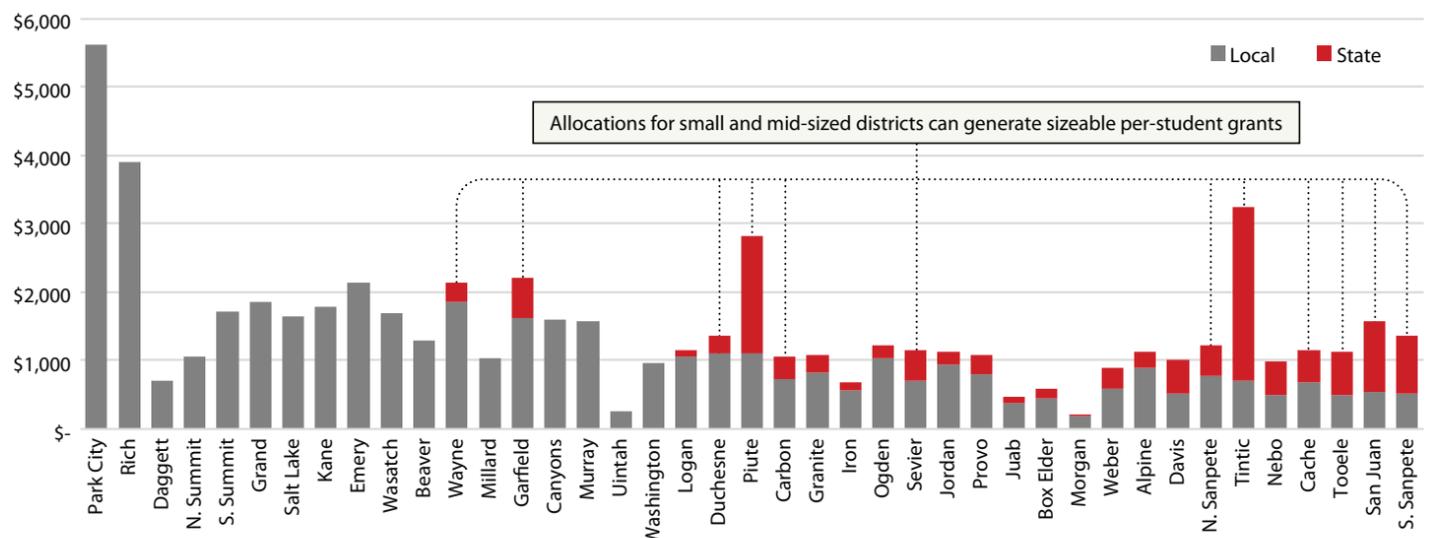
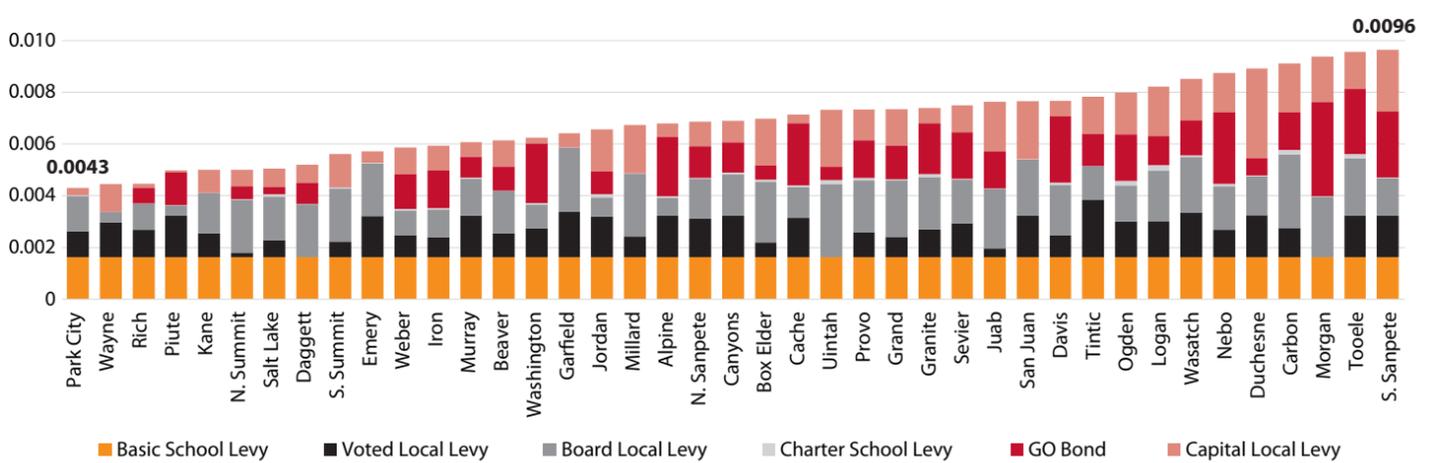


Figure 21: School Property Tax Rates by Category, 2020

School District Tax Rates Vary Significantly

Source: Utah State Tax Commission



1998	1999	2005	2006	2008
Fee-in-lieu rate reduced from 1.7% to 1.5%, and counties authorized to impose a 0.25% sales tax with a corresponding reduction in county property taxes	First light rail line (TRAX) opens Passenger cars subject to age-based (rather than value-based) fee-in-lieu property tax	K-12 school enrollment surpasses 500,000 Uniform fee on motor homes reduced to 1.25%, uniform fees imposed on other personal property required to be registered with the state (including ATVs, campers, non-commercial trailers, motorcycles, snowmobiles, personal watercraft, and boats)	Goodwill defined as intangible property, uniform fee on motor homes reduced to 1.0%, and shift to age-based fee on most personal property required to be registered with the state Utah Constitution amended to allow exemption for personal property that generates an inconsequential amount of revenue	UTA FrontRunner opens

Continued on bottom of next page

Figure 22: Total School Funding per WPU by School District, FY 2021

Overall Funding is Partially Equalized, but Discrepancies Remain

Note: School districts are listed in order from most WPU's to least.

Source: Kem C. Gardner Policy Institute analysis of Utah State Board of Education data

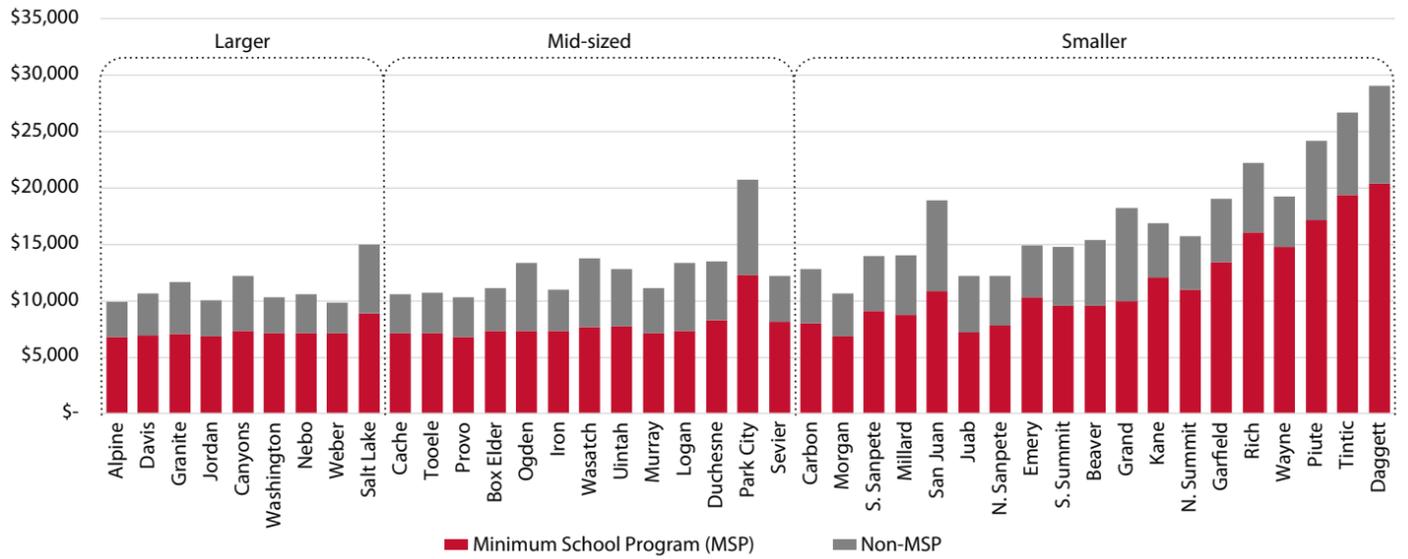


Table 2: Authorized School Property Tax Rates, 2020

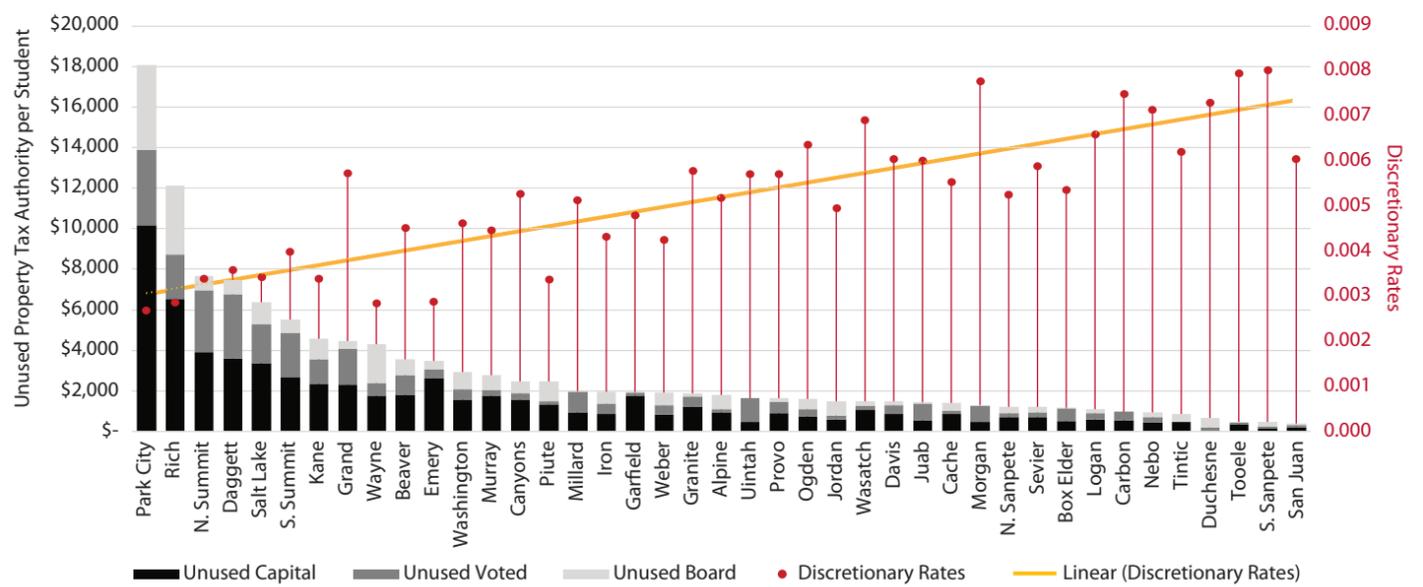
Rate Authorization	Approved By	Utah Code Reference	Maximum Tax Rate	Statewide Average Rate	Unused Local Taxing Capacity (in Millions)
Statewide School Levy	Legislature and Local School Board	53F-2-301	0.001628	0.001628	n/a
Board Local Levy	Local School Board	53F-8-302	0.002500 when combined with charter school levy	0.001240	\$284
Charter School Levy	Local School Board	53F-2-703	Formula - varies	0.000065	n/a
Voted Local Levy	Voters and Local School Board	53F-8-301	0.002000	0.000815	\$261
Capital Local Levy	Local School Board	53F-8-303	0.003000	0.000748	\$642
General Obligation Debt	Voters and Local School Board	51-5-4	Sufficient	0.001071	n/a
Discharge of Judgment	Local School Board	59-2-1328 & 1330	Sufficient	Not imposed in 2020	n/a

Source: Utah Code Annotated and Utah State Tax Commission data

Figure 23: Unused Property Tax Authority per Student by School District, 2020

Significant Taxing Authority Remains Unused, but Capacity Varies by District

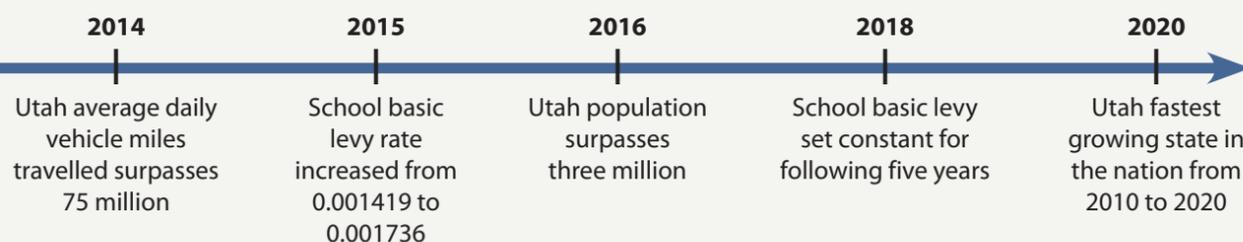
Source: Utah State Tax Commission and Utah State Board of Education



How Much School Funding Falls Outside of the Minimum School Program?

While the \$5.4 billion Minimum School Program funds the largest share of the estimated FY 2022 \$8.5 billion in K-12 education funding, over \$3 billion falls outside of this major program, including \$1.7 billion in local property taxes not accounted for in the Minimum School Program. Other major funding sources

include federal funds, the State Building Program, state funds allocated to separate State Board of Education line items rather than to LEAs through the Minimum School Program, and state and local fees.



“The very reason which makes direct taxation disagreeable makes it preferable. Under it everyone knows how much (s)he really pays.”

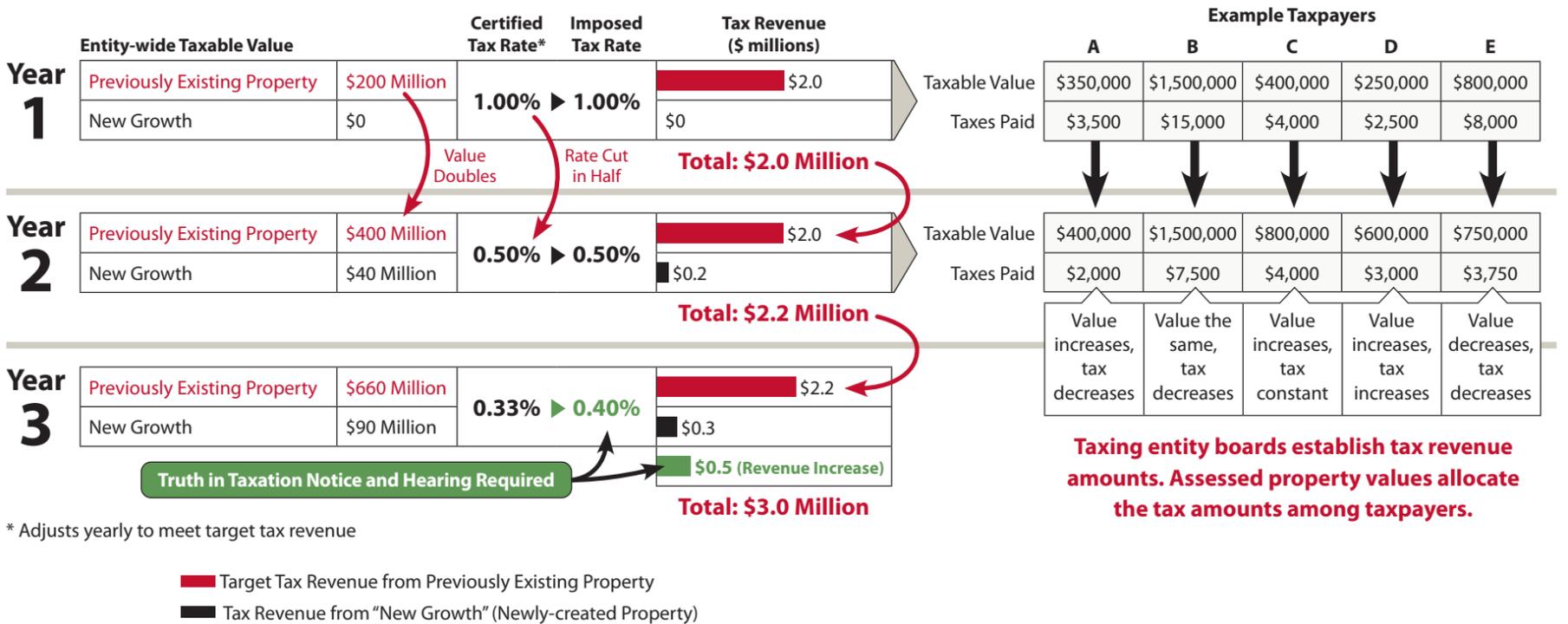
–John Stuart Mill

Truth in Taxation and Property Tax Rates

Enacted in 1985, Utah's "Truth in Taxation" system requires taxing entities to follow specified public notice and hearing requirements to increase the dollar amount of property tax revenue they receive, exclusive of "new growth" such as a new home or office building. In other words, **Utah's property tax system is revenue-driven rather than rate-driven.**

Figure 24: Example of Truth in Taxation Certified Tax Rate Process

Certified Tax Rate Adjusts Down to Offset Valuation Increases



Source: Kem C. Gardner Policy Institute

In general, property value increases for existing properties **do not** automatically increase property tax revenues because the tax rate automatically drops to offset that valuation increase. The tax rate that generates the same dollar amount of budgeted revenue in the prior year, exclusive of "new growth," is known as the "certified tax rate." Subject to statutory caps, a taxing entity can only charge a higher rate than the certified tax rate by following specified procedures for advertising the revenue increase and holding a public hearing that allows public comment. Not adjusting for inflation can lead to revenue lurches, as taxing entities sometimes avoid any revenue increase until a funding crisis hits, then do a very large increase all at once.

Just because a taxing entity does not receive increased revenues does not mean a particular owner's property taxes will not change. Rather, each owner's share of the property tax burden will change based on their property valuation change relative to other

property values. For example, if business property taxable values increase slower than residential property values, a higher share of the tax burden redistributes to residential property owners because they now make up a larger share of total property values. Similarly, if values in one county are assessed at fair market value while values in another county are assessed below fair market value, the tax burden for statewide school and property tax assessment taxes gets shifted from the underassessed to the appropriately assessed properties.

Property value increases for existing properties do not automatically increase property tax revenues... Each owner's share of the property tax burden will change based on their property valuation change relative to other property values.

Property Tax Rates

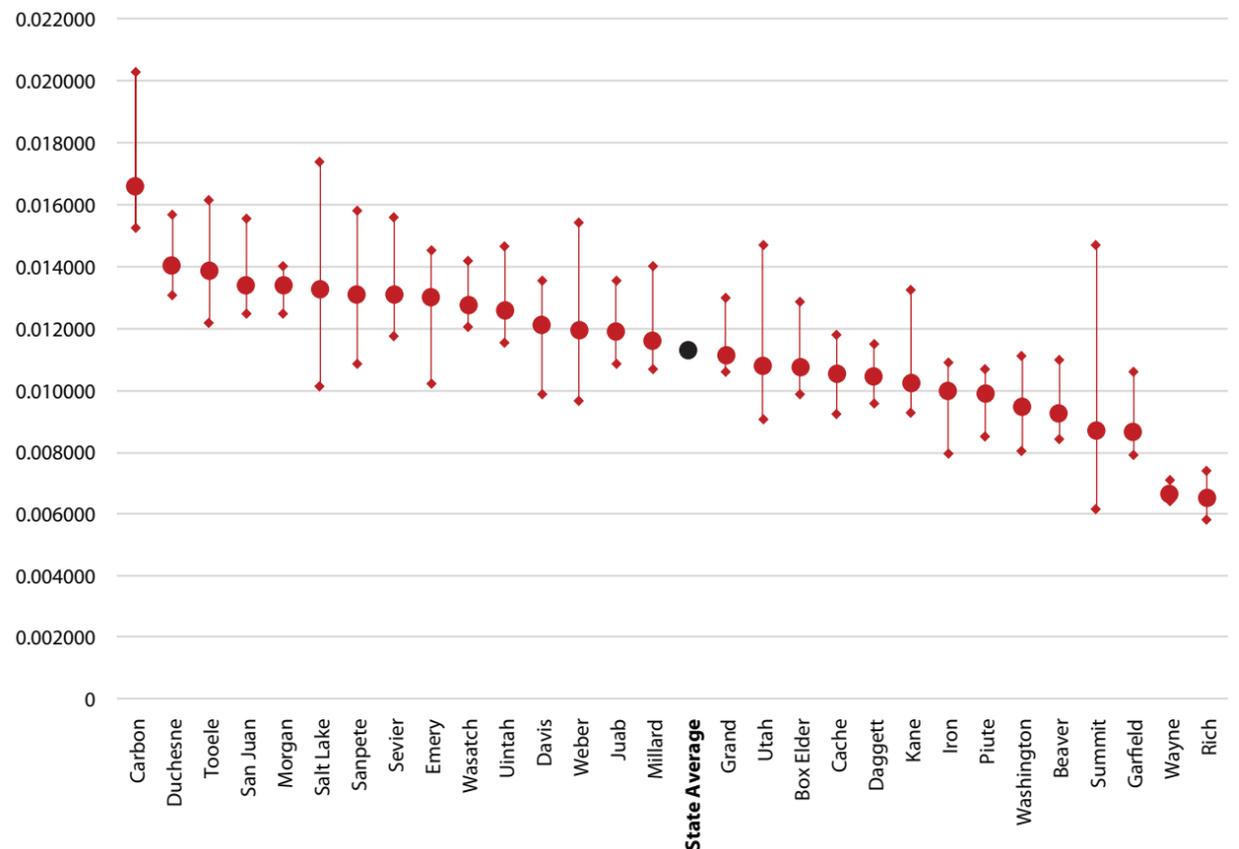
Local governments do not have autonomous authority to tax. Rather, the Legislature grants this authority to local governments by statute. In addition to school tax rates covered earlier, Table 3 shows authorized property taxes for the state, counties, cities and towns, and limited-purpose districts.

The total tax rate on a property is the sum of tax rates for each taxing entity within which that property is located. Because geographic boundaries of political subdivisions are not all contiguous with each other, properties in close proximity to each other can have different tax rates depending on the taxing entities their property corresponds to.

Figure 25 shows the range and average of total property tax rates from all local taxing entities, by county, while Figure 26 shows a theoretical example of taxing entity boundaries and actual taxing entity boundaries in Salt Lake County.

Figure 25: Average Property Tax Rates by County, 2020

Tax Rates Vary Significantly Within and Among Counties



Source: Utah State Tax Commission

Lien Date | Lē(ə)n dāt
 1. the date as of which property is valued and property taxes become a lien on property

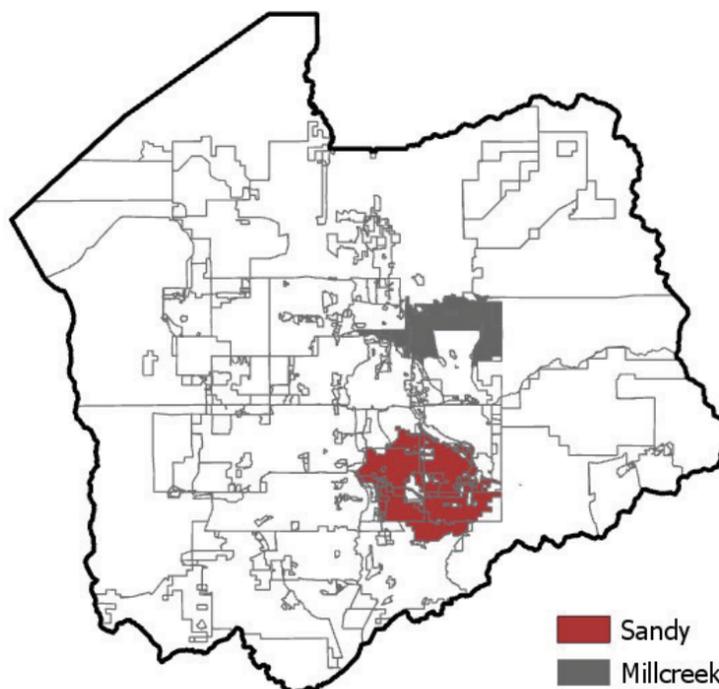
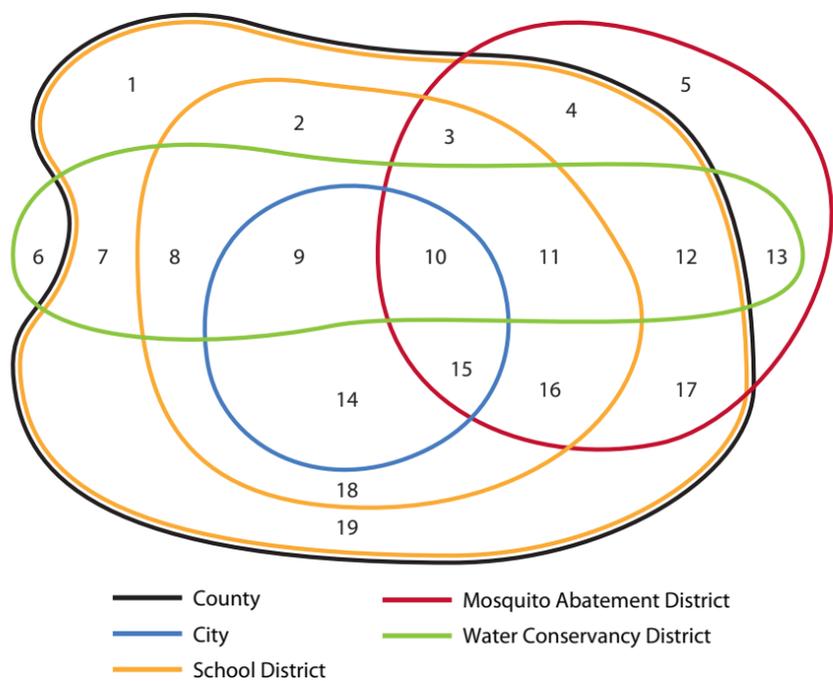
Situs | sītəs
 1. the location to which a property belongs for tax purposes.

Table 3: Authorized Property Tax Rates

Entity	Authorized Purpose	Maximum Rate	Utah Code Reference
State	Debt service (abated if funded by other revenues)	Sufficient	63B
All Local	Debt service	Sufficient	10-6-133.5(5)(b), 10-8-6, 11-14-310
	Certain tax appeal judgments	Sufficient	59-2-1330
	Tort liability	Sufficient	63G-7-704
County	General - taxable value >\$100M	0.003200	59-2-908
	General - taxable value <\$100M	0.003600	59-2-908
	Library	0.001000	9-7-501
	Health	0.000400	26A-1-117
	Assessing and collecting - multi-county	0.000012	59-2-1602
	Assessing and collecting - county	Sufficient	59-2-1602
	Flood control	Sufficient	17-8-6, 17-8-7
	Municipal-type service	Sufficient	17-34
City and Town	General	0.007000	10-5-112, 10-6-133
	City library	0.001000	10-6-133.5
	City or town hospital (city of 3rd, 4th, or 5th class or town)	0.001000	10-5-112.5, 10-6-133.5
	City or town water and wastewater (if not located within an improvement district)	0.000800	10-5-112.5, 10-6-133.5
	City or town recreational facilities	Sufficient	10-5-112.5, 10-6-133.5, 11-2-7
	Assessment area bond guarantee	0.000200	11-42-701

Entity	Authorized Purpose	Maximum Rate	Utah Code Reference
Limited-Purpose District	Water - Conservancy district (within Lower Colorado River Basin after beginning design, property acquisition, or construction)	0.001000	17B-1-1002, 17B-1-1006
	Water - Conservancy district (served under a contract, water appropriation, or water allotment of Upper Basin Colorado River Compact)	0.000400	17B-1-1002, 17B-1-1006
	Water - Conservancy district (prior to design, property acquisition, or construction)	0.000100	17B-1-1002, 17B-1-1006
	Water - Conservancy district (after beginning design, property acquisition, or construction)	0.000200	17B-1-1002, 17B-1-1006
	Water - Conservancy district (debt service)	0.000100	17B-1-1002, 17B-1-1006
	Water - Metropolitan district	0.000500	17B-1-1002
	Water and wastewater - Improvement district	0.000800	17B-1-1002
	Water - Drainage district	0.000400	17B-1-1002
	Service area - Within county of 1st or 2nd class and providing fire, paramedic, emergency, or certain law enforcement services	0.002300	17B-1-1002
	Service area - Any other	0.001400	17B-1-1002
	Municipal services district	0.000800	17B-1-1002
	County municipal services for unincorporated areas	Sufficient	17-34
	Fire protection district	0.000800	17B-1-1002
	Special service district voted levy	Voted	17D-1-1005
	Basic local district	0.000800	17B-1-1002
	Cemetery maintenance district	0.000400	17B-1-1002
	Public transit district	0.000400	17B-1-1002
	Mosquito abatement	0.000400	17B-1-1002
	Public infrastructure district	Sufficient	17B-2a-1207

Figure 26: Theoretical and Actual Example of Taxing Entity Boundaries and Tax Areas
Jurisdiction Boundaries Determine a Property's Total Tax Rate



Source: Kem C. Gardner Policy Institute

Source: Utah Geospatial Resource Center (UGRC) and Kem C. Gardner Policy Institute

Table 4: Example of Tax Rates and Amounts

Market Value for a Primary Residence: \$440,000; Taxable Value After 45% Exemption: \$242,000

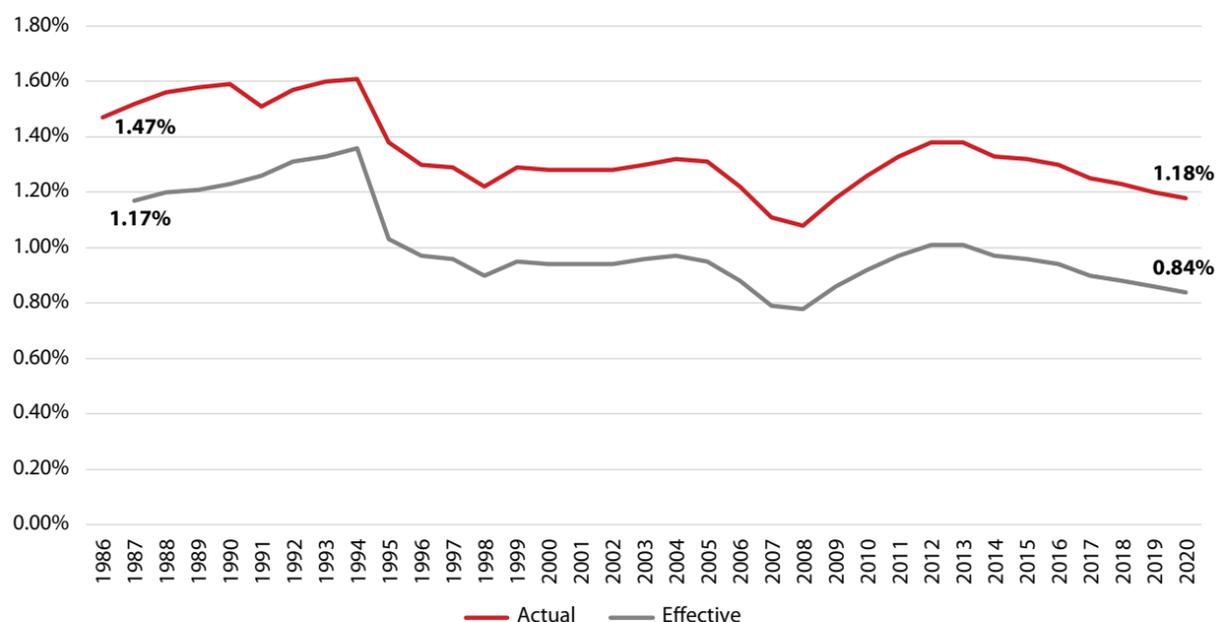
Tax Area A (Sandy)				Tax Area B (Millcreek)			
	Taxing Entity	Rate	Taxes Charged		Taxing Entity	Rate	Taxes Charged
School	Canyons School District – Statewide Basic Levy	0.001628	\$393.98	Granite School District – Statewide Basic Levy	0.001628	\$393.98	
	Canyons School District – Discretionary Local Levies	0.005015	\$1,213.63	Granite School District – Discretionary Local Levies	0.005477	\$1,325.43	
County	Salt Lake County	0.001777	\$430.03	Salt Lake County	0.001777	\$430.03	
	County Assessing & Collecting levy	0.000196	\$47.43	County Assessing & Collecting levy	0.000196	\$47.43	
	Salt Lake County Library	0.000474	\$114.71	Salt Lake County Library	0.000474	\$114.71	
	Multicounty Assessing & Collecting Levy	0.000012	\$2.90	Multicounty Assessing & Collecting Levy	0.000012	\$2.90	
City	Sandy	0.001174	\$284.11	Millcreek	0.001699	\$411.16	
Other	Central Utah Water Conservancy District	0.000400	\$96.80	Central Utah Water Conservancy District	0.000400	\$96.80	
	Metropolitan Water District of Salt Lake and Sandy	0.000275	\$66.55	Jordan Valley Water Conservancy District	0.000738	\$178.60	
	Sandy Suburban Improvement District	0.000547	\$132.37	Cottonwood Improvement District	0.000294	\$71.15	
	Jordan/Canyons School District Debt Service Area	0.000347	\$83.97	Unified Fire Service	0.001594	\$385.75	
	South Salt Lake Valley Mosquito Abatement District	0.000012	\$2.90	South Salt Lake Valley Mosquito Abatement District	0.000012	\$2.90	
Total Tax Rate		0.011857	\$2,869.39	Total Tax Rate		0.014301	\$3,460.84

Source: Utah State Tax Commission and Kem C. Gardner Policy Institute

Table 4 shows an example of the differences between a tax area in Sandy and one in Millcreek. The median Salt Lake County home price was \$440,000 in early 2021. A primary residence with this market value located in tax area A (in Sandy) would incur about \$2,900 in annual property taxes, while a primary residence with the identical market value located in tax area B (in Millcreek) would incur about \$3,500, or \$600 (20%) more.

Figure 27: Utah Statewide Average Property Tax Rates, 1986–2020

Utah's Average Property Tax Rates Fell with School Basic Levy Cuts in the Mid-1990s and Have Been Generally Steady Since



Note: Effective tax rate compares taxes to fair market value rather than taxable values to which the actual rate is applied
 Source: Utah State Tax Commission

Table 5: Annual Property Tax Process Timeline (Selected Highlights)

January 1	Lien date
February 1	Personal property statement mailing to taxpayer begins
May 1	State Tax Commission assesses centrally assessed property and notifies owners and county assessors of assessment
May 22	County assessor completes assessment roll
June 15	County assessor completes taxable value statement by taxing entity
June 22	Taxing entity boards adopt tentative budgets and notify Tax Commission of final tax rate, or proposed tax rate if proposing a rate higher than the certified tax rate
June 30	Taxing entities adopt final budget or tentative budget if proposing a rate higher than the certified tax rate
July 15	Taxing entities exceeding certified tax rate publish newspaper advertisement and on public notice website
July 22	County auditor mails notice of valuation and tax change to all real property owners, including date, time, and location of public hearing for entities exceeding the certified tax rate
August	Entities exceeding certified tax rate hold public hearing and then adopt final budget
Sept 15	Appeals of real property valuation due to county board of equalization
Sept 30	Tax Commission approves final tax rates
Oct 1	Valuation appeal decisions
Nov 1	Final tax notices mailed
Nov 30	Taxes due to county treasurer

Note: Entities whose fiscal year corresponds to the calendar year follow a different schedule
 Source: Utah State Tax Commission

Property Tax Increment Redirects Property Tax Funds from Taxing Entities

Sometimes a local government wants to encourage redevelopment (or even initial development) of property that the government deems as underutilized. Local governments can authorize financial inducements to encourage property development through tax increment financing. As property values grow, this tax increment financing approach redirects some or all of the increased property taxes within a certain geographic project area that would have otherwise gone to schools, cities, counties, and other local districts to a community reinvestment agency, which uses it to further the agency’s goals.

Opponents of these projects argue that given their widespread use beyond truly blighted areas, much of this economic activity would have taken place in one form or another without the property tax subsidy—so intervening in the private market is unsound because it distorts the marketplace and involves government picking economic winners and losers. Proponents point to positive externalities from the projects, such as increasing jobs in that area, coordinating a larger project that would be difficult on a parcel-by-parcel basis, or improving blighted areas that the private market would not improve.

As of 2020, \$213 million in property tax revenue was redirected from school districts, cities and towns, counties, and other districts to community reinvestment agencies.

Recommended Best Practices for Tax Increment Financing (TIF)

1	2	3	4	5
Track and monitor TIF use	Allow local governments an up-front opt out	Evaluate “But For” scenarios	Provide extensive, easily accessible information on TIF use, revenues, and spending	Study, document, and explain different outcomes in various geographic areas

Source: Lincoln Institute of Land Policy

Property Tax Base: Property Type, Ownership, and Use

What is Property?

A key to understanding property taxes is understanding different property types. Property may be taxed differently depending on details of each property's type, or based on ownership and use of that property.

Real property is land and improvements permanently affixed to the land. All tangible property other than real property is **personal property**. Importantly, real property is immobile and personal property is mobile.

Tangible property is property that can be touched, seen, weighed, measured, felt, or is otherwise perceptible to the senses.

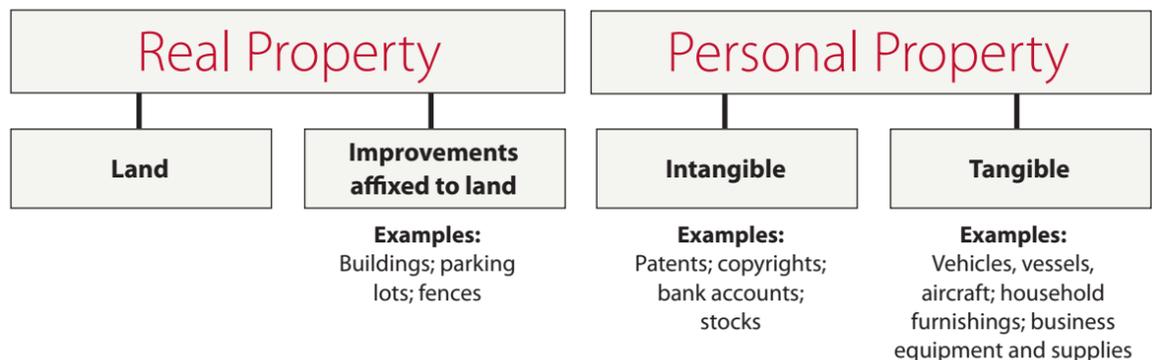
Intangible property is property whose value does not come from tangible characteristics, and includes intellectual property, stocks, bonds, and bank accounts.

What Makes Up Utah's Property Tax Base?

Unlike other taxes, the property tax's general structure is embedded in the Utah Constitution. Over the decades since statehood, Utah's property tax system has shifted from a "general" tax (theoretically) on nearly all privately owned property to a narrower tax imposed primarily on real property and, to a lesser extent, business personal property, along with certain household personal property (such as cars, boats, and motor homes) taxed through a fee-in-lieu of the property tax.

ad valorem | ad və'lôrəm
1. a tax levied according to value

Types of Property



Property | prăpərdē
1. a thing or things belonging to someone; possessions collectively; the right to the possession, use, or disposal of something; ownership

Source: Kem C. Gardner Policy Institute

Property Tax Structure Embedded in the Utah Constitution

General Rule – Utah Constitution Article XIII, Section 2

- (1) All tangible property in the State that is not exempt under the laws of the United States or under this Constitution shall be:
- (a) **assessed at a uniform and equal rate** in proportion to its **fair market value**, to be ascertained as provided by law; and
 - (b) **taxed at a uniform and equal rate.**

Exceptions to the Rule – Utah Constitution Article XIII, Sections 2 and 3

Mandatory Exceptions to the Rule – Property that CANNOT be taxed based on ownership or use status

- Owned by State of Utah, public library, school district
- Owned by any other political subdivision if located within that political subdivision
- Owned by a non-profit if used exclusively for religious, charitable, or educational purposes
- Places of burial
- Farm equipment and machinery
- Water rights and certain irrigation-related water infrastructure

Optional Exceptions to the Rule – Property that CAN be exempted or vary from full fair market valuation as determined by the Legislature:

- Up to 45% of the fair market value of residential property
- Agricultural property can be based on agricultural use value
- Intangible property (if taxed, subject to rate limitation and not being taxed under the income tax)
- Household furnishings, furniture, and equipment used exclusively by the owner to maintain the owner's home
- Property owned by certain political subdivisions if located outside that political subdivision
- Livestock
- Tangible personal property registered with the state if fee imposed in lieu of property tax
- Inventory
- Property owned by military veterans disabled in line of duty, property owned by the unmarried surviving spouse or orphaned minor of those disabled or killed in line of duty, and primary residential property owned by someone on military orders out of state for a specified amount of time
- Tangible personal property that would generate an inconsequential amount of revenue
- Property taxes of the poor

“In my opinion, the least bad tax is property tax on the unimproved value of land.”

Milton Friedman

“The first great challenge to a market value tax base is to establish an accurate assessment system.”

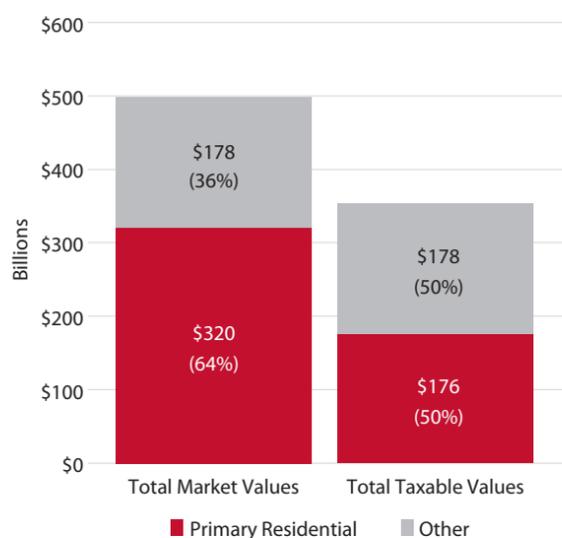
– Joan Youngman

Total Property Values in 2020

In 2020, Utah assessors estimated the market value for taxable property at nearly \$500 billion. This estimated market value excludes property values not subject to tax, such as government and exempt non-profit property and intangible property, and estimates agricultural property at its value for agricultural use (rather than fair market value). About \$350 billion of this \$500 billion total was taxed, with the primary residential exemption constituting the nearly \$150 billion difference.

Figure 28:
Utah Property Values, 2020
Primary Residential Property is the Single Largest Component of Property Values

Source: Utah State Tax Commission



Assessment of Property Values

Because accurate property valuations are essential to *ad valorem* property taxation, assessors play a key role in Utah’s property tax system as they estimate the value of all different kinds of properties. Assessors appraise property values using different estimation methods, including approaches using comparable sales, income generation, and replacement costs.

Assessors value most residential property using computer-assisted mass appraisal (CAMA) systems relying on comparable sales or using the cost approach. Comparable business property sales are less common than residential sales, so business properties are often valued using the cost and income approaches. Because Utah (unlike most other states) does not have mandatory property sale price disclosure, data availability challenges can increase the difficulty of accurate property valuation.

Locally Assessed and Centrally Assessed Property

Most property value is estimated (or assessed) locally by county assessors. However, the value of certain types of property, including mines, utilities, airlines, and railroads, is estimated (or assessed) centrally by the Utah State Tax Commission. When properties are centrally assessed by the Tax Commission, those statewide values are then allocated throughout the state among

Table 6: Key Property Tax Administration Roles

County assessor	Identify and value locally assessed real property and personal property, and also mail, bill, and collect personal property taxes
County treasurer	Mail real property tax notices, collect payments, and disburse funds to taxing entities
County auditor	Coordinate with taxing entities and Tax Commission on tax rates, process tax relief applications, report on accounting, auditing, and settlement functions
County recorder	Provide land plats defining real property parcels and property ownership information to assessor
County governing board / local board of equalization	Decide on valuation appeals, establish equalization procedures, and authorize tax relief
Taxing entity boards (school district, city, county, special/other)	Adopt tax rates after following specified processes and allocate revenue to fulfill entity’s public purposes
State Tax Commission	Value centrally assessed properties, equalize values among counties as state board of equalization, approve taxing entity tax rates, and hear appeals on locally assessed property

Source: Utah State Tax Commission

taxing entities. Those who disagree with their property’s valuation can follow an appeal process, in which they can provide evidence disputing the assessor’s estimates.

Major Property Value Shifts Over Time

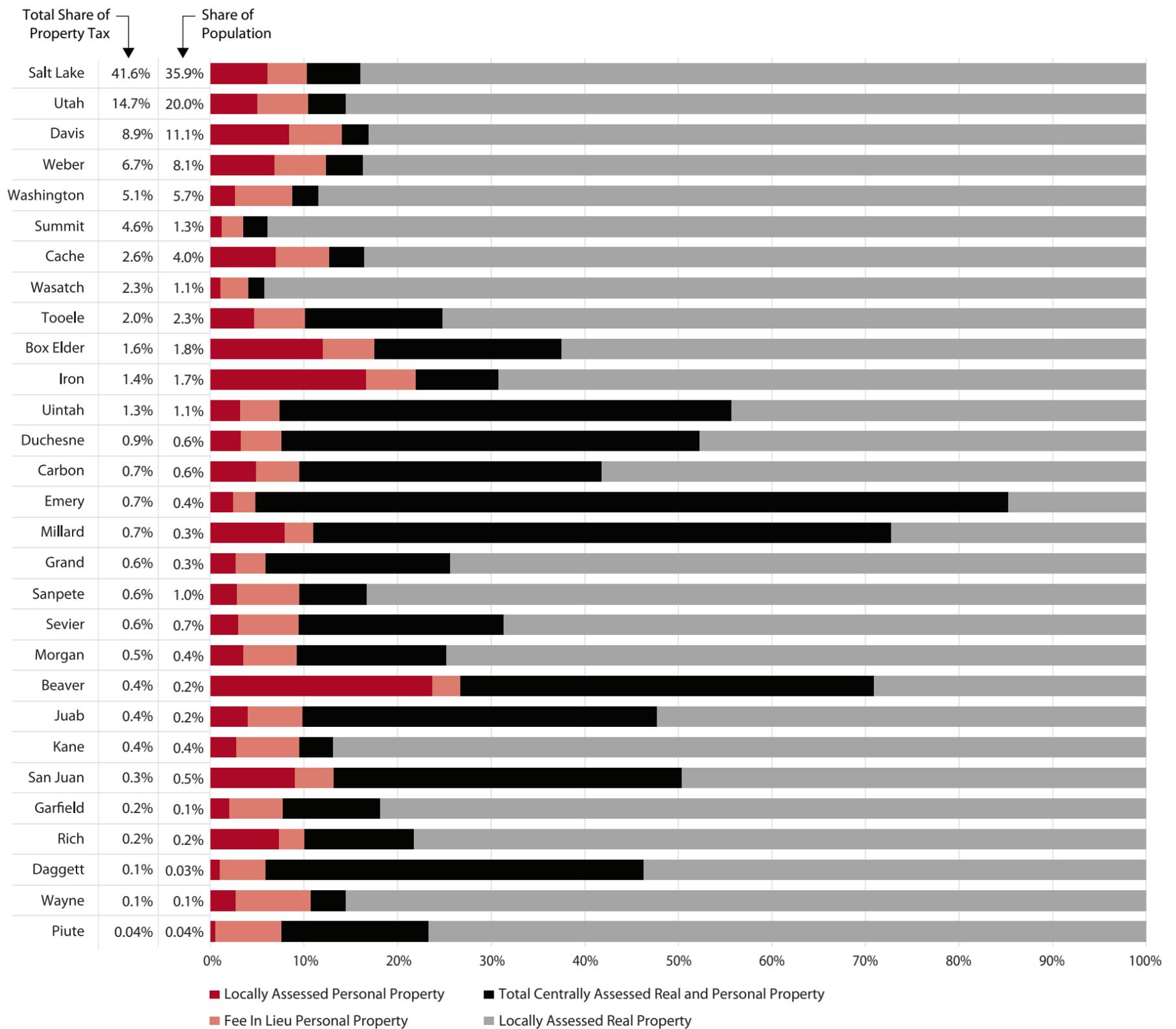
As Figure 30 shows, the centrally assessed share of property values declined dramatically from 32% in 1955 to 8% in 2020. A portion of this tax burden shifted to locally assessed business properties that now account for a larger share, while the remainder shifted mostly to residential properties.

Various explanations underlie this shift, including:

- overarching economic changes that diversified Utah’s economy away from large natural resource and utility companies in favor of rapidly growing sectors with locally assessed property, including the technology sector;
- statutory valuation methodology changes that reduce taxable values for centrally assessed properties, including statutory requirements to assess properties at levels some argue fall below true fair market value; and
- centrally assessed companies arguing that an increasing share of their property value should be treated as untaxed “goodwill” intangible property.

Figure 29: Share of Property Tax Base for Major Property Types by County, 2020

Tax Base Composition Varies by County

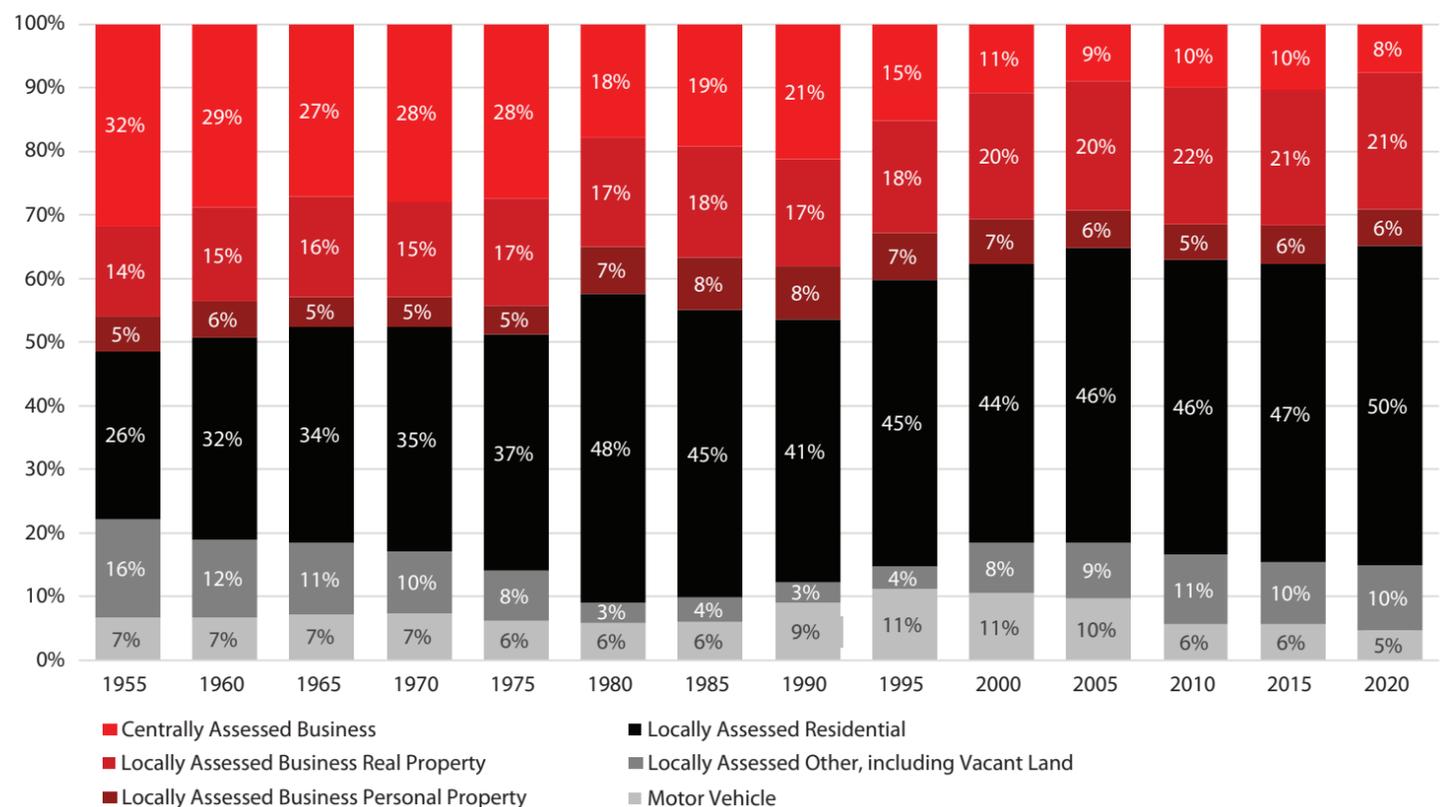


Source: Utah State Tax Commission

Figure 30: Share of Property Taxes Charged in Utah by Type of Property, 1955–2020

Business Share of Initial Tax Burden has Decreased Over Time

Source: Utah State Tax Commission, Property Tax Division, Annual Statistical Reports



The Utah Constitution authorizes the Legislature to determine by statute the extent of exempting residential property, up to 45% of value.

Residential Tax Base

In 2020, primary residential property made up about two-thirds of estimated market values and a little over half of taxable values (see Figure 28).

The Utah Constitution authorizes up to a 45% property tax exemption of residential property values. Since 1995, the Legislature has made the policy decision to provide the full 45% exemption to all primary residential property values, including both owner-occupied and renter-occupied property. Homes that are not primary residences do not receive this exemption.

Utah's Exemption More Generous

Utah's uncapped residential exemption is more generous than other states, particularly for high-value homes. Most states with a residential exemption narrowly focus the tax benefit by capping the tax reduction at a specified amount (similar to Utah's homestead exemption in place until 1982).

As shown in Table 7, Utah is one of only three states to offer a percentage-based homestead exemption for all primary residences and the only one that does so with no cap or differential rates (based on home value). Most states that offer property tax relief for homeowners do so through a fixed value homestead exemption. These exemptions range from \$3,000 to \$75,000. Utah's median priced home (\$380,000) received a \$171,000 exemption in 2020—significantly more than any other state. Twenty-six states do not offer any property tax exemptions or credits that apply to all primary residences and instead often target relief toward certain populations (based on income, age, disability, or veteran status), or through other means.

Figure 31: Example of Primary Residential Exemption

Utah's Uncapped Primary Residential Exemption Provides Greatest Benefits to Highest Value Homes



Market Value	\$300,000	\$2,000,000
Exemption (45% for primary residence)	\$135,000	\$900,000
Taxable Value	\$165,000	\$1,100,000
Sample Tax Rate	0.01	0.01
Tax	\$1,650	\$11,000
Tax reduction from 45% exemption	\$1,350	\$9,000

Source: Kem C. Gardner Policy Institute

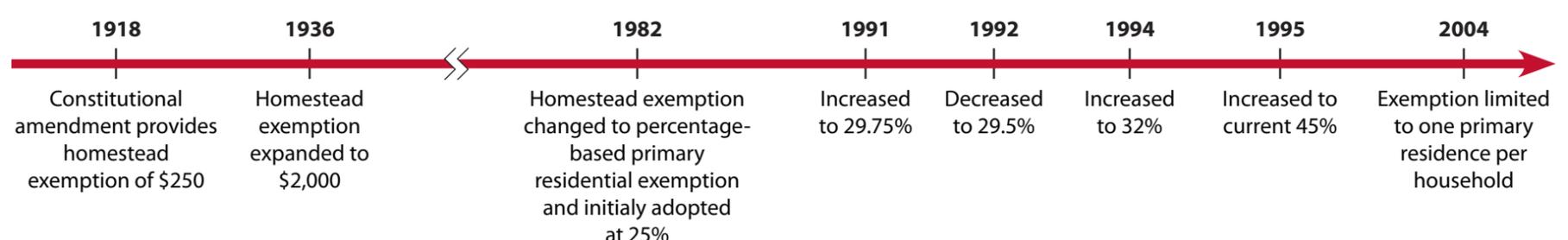
Table 7: State Homestead Property Tax Exemptions or Credits for All Primary Residences

\$ Homestead Tax Credits		% Homestead Exemptions	
AR	\$350	AZ	47.19% for School Primary Levy
MS	Up to \$300	IL	5%
		OH	10% and 2.5% rollback
		WI	12%
AL	\$40,000 (state), \$20,000 (local)	ID	50% (capped at \$100,000)
CA	\$7,000	IN	35% (homes valued \$600,000 or less), 25% (homes valued more than \$600,000)
FL	\$25,000 (all taxes), \$25,000 (excludes school taxes)	UT	45% (uncapped exemption, applies to all primary residence values)
GA	\$5,000		
IA	\$4,850		
IN	\$45,000		
KS	\$20,000 (school levy)		
LA	\$75,000 (excludes municipal taxes)		
ME	\$20,000		
NM	\$6,000 (excludes special assessment)		
NY	\$30,000 (school)		
OK	\$8,000		
TX	\$25,000 (school), \$3,000 (county special taxes)		
WI	\$23,800 (two programs, school)		
		Other	
		SC	Exempt from school taxes for operating costs
		MI	Exempt from local school levy
		MN	40% of the first \$76,000 of market value, reduced by 9% of the value over \$76,000, and phases out completely at \$413,800 market value

Note: This table only includes homestead property relief to all primary residences. Many states (both those in this table and those not in this table) offer homestead property relief to specific populations (e.g. based on income, age, disability, or veteran status), or through other means.

Source: Lincoln Institute of Land Policy

Timeline of Primary Residential Exemption Changes



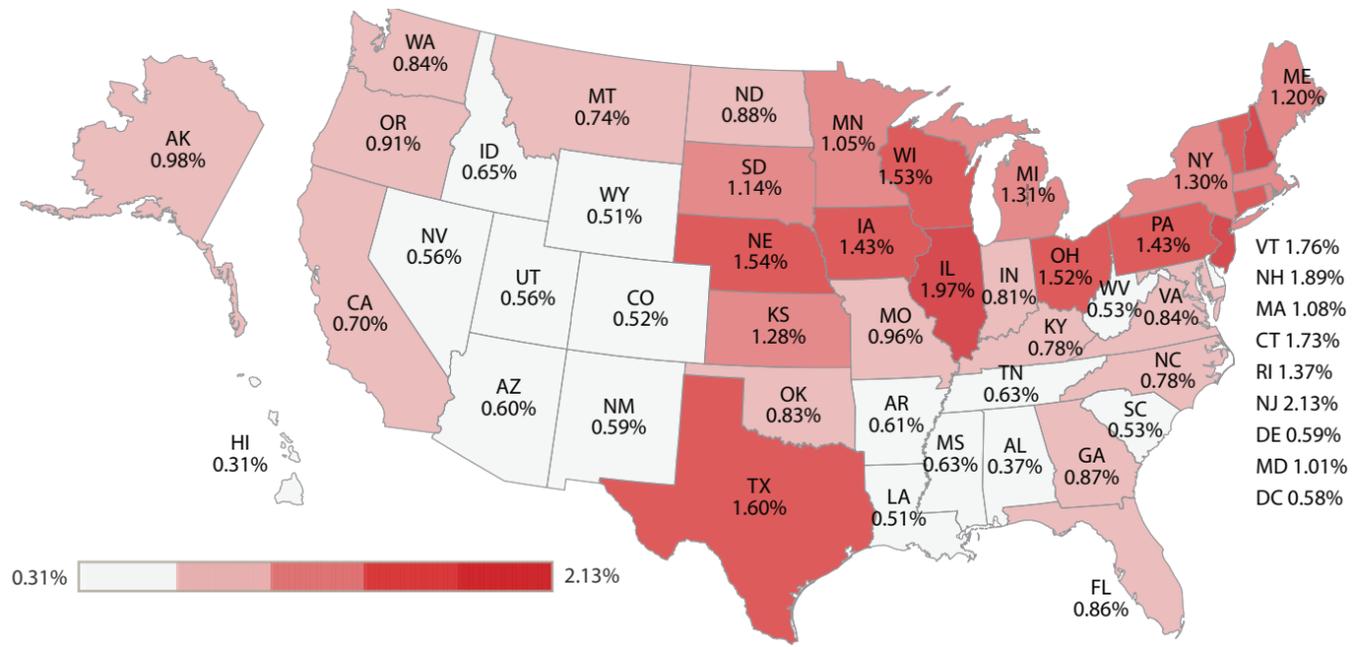
Source: Kem C. Gardner Policy Institute and Utah State Tax Commission

Figure 32: Primary Residential Property Taxes Paid as a Percentage of Owner-Occupied Housing Value, 2019

Utah Residential Property Tax Among Lowest in Nation

Note: The figure shows the mean effective property tax rates on owner-occupied housing (total real taxes paid/total home market values). As a result, the data exclude property taxes paid by businesses, renters, and others.

Source: Tax Foundation, U.S. Census Bureau 2019 American Community Survey



Intangible Property

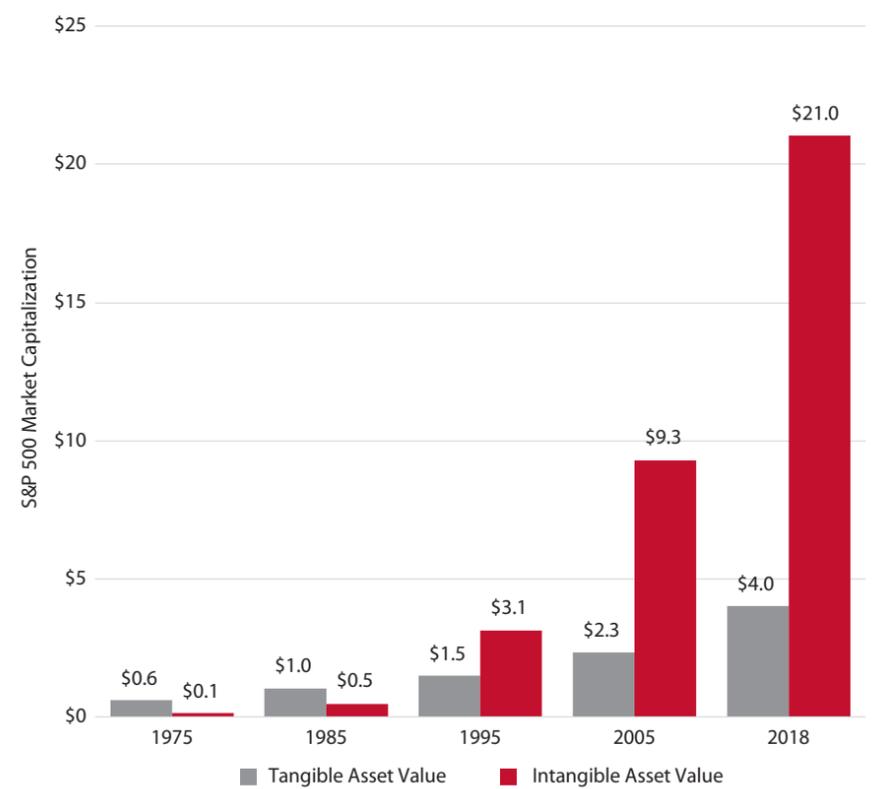
Intangible property (property whose value does not come from physical characteristics, such as stocks, bonds, money, and intellectual property) represents a challenging arena for taxation in general, including for the property tax. Article XIII of the Utah Constitution explicitly permits intangible property taxation. However, if intangible property is taxed, (a) the Constitution limits the tax rate to 0.5% of property value, and (b) prohibits an income tax on the intangible property's income generation.

While some intangible property was originally taxed under the Utah Constitution, over time citizens approved constitutional amendments and the Legislature then made a policy decision to not tax intangible property (and to tax incomes). One source of recent controversy is the statutory definition of "goodwill" as part of untaxed intangible property, as various centrally assessed and locally assessed property owners argue that an increasing share of their property is intangible goodwill not subject to tax.

As the economy has shifted away from goods production in favor of services (particularly information economy services), intellectual property in particular has become a larger and larger share of total asset values. For example, as Figure 33 shows, estimates indicate that roughly 80–85% of S&P 500 stock values correspond to intangible property (rather than tangible property like real estate and equipment). Moreover, one study estimates that global intangible values grew during the pandemic by over 20%.¹ In short, in today's global information economy, intangible property constitutes a much larger share of overall assets than tangible property, making the property tax less of a wealth tax than it was before.

Figure 33: Tangible Asset Value vs. Intangible Asset Value for S&P 500 Companies, 1975–2018 (\$ in billions)

Most Major Company Asset Values Are Now in Intangible Property



5 Largest Companies by Market Capitalization				
1975	1985	1995	2005	2018
IBM	IBM	GE	GE	Apple
Exxon Mobil	Exxon Mobil	Exxon Mobil	Exxon Mobil	Alphabet
Procter & Gamble	GE	Coca-Cola	Microsoft	Microsoft
GE	Schlumberger	Altria	Citigroup	Amazon
3M	Chevron	Walmart	Walmart	Facebook

Source: Ponemon Institute

“Lack of universality... Personal property nowhere bears its just proportion of the burdens. And it is precisely in those localities where its extent and importance are the greatest that its assessment is the least. The taxation of personal property is in inverse ratio to its quantity. The more it increases, the less it pays. The reason is plain. So far as it is intangible, personal property escapes the scrutiny of the most vigilant assessor; so far as it is tangible, it is exempted in its chief form, as stock in trade...”

Edwin R. A. Seligman, Political Science Quarterly 1890

1. Brand Finance. (September 2021) Global Intangible Finance Tracker (GIFT) - an annual review of the world's intangible value. <https://brandirectory.com/download-report/brand-finance-gift-2021.pdf>

Table 7: Personal Property Tax Fee-in-Lieu Amounts

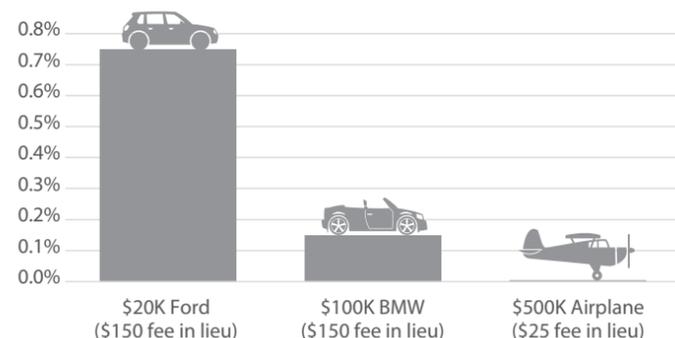
Fee-in-lieu Amounts Do Not Adjust for Inflation and Vary Based on Age and Other Factors

Age-based		< 3 yrs	3–6 yrs	6–9 yrs	9–12 yrs	12–15 yrs	15+ yrs
	Passenger car and light-duty truck	\$150	\$110	\$80	\$50	\$10	
	Snowmobile	\$45	\$35	\$30	\$20	\$10	
	Off-road ATV or motorcycle	\$18	\$14	\$12	\$8	\$4	
	Street-legal ATV	\$38	\$28	\$20	\$14	\$4	
	Street motorcycle	\$95	\$70	\$50	\$35	\$10	
	Non-commercial trailer	\$30	\$25	\$20	\$15	\$10	
	Travel trailer	\$175	\$135	\$90	\$65	\$20	
	Truck camper or tent trailer	\$70	\$50	\$35	\$25	\$10	
	Small motor vehicles	\$25	\$15	\$10			
	Motor home	\$690	\$540	\$425	\$315	\$180	\$90
	Personal watercraft	\$55	\$45	\$35	\$25	\$10	
	Vessel less than 15 ft	\$10 (All)					
	Vessel 15–19 ft	\$150	\$110	\$80	\$65	\$25	
	Vessel 19–23 ft	\$275	\$220	\$175	\$120	\$50	
	Vessel 23–27 ft	\$400	\$310	\$240	\$120	\$100	
	Vessel 27–31 ft	\$700	\$500	\$350	\$250	\$120	

Other					
	Collapsible inflatable vessel, pontoon, or sailboat (all ages)	15–19 feet \$15	19–23 feet \$25	23–27 feet \$40	27–31 feet \$75
	Commercial trailers, medium and heavy duty trucks, vessels over 31 feet, other	1.5% of Value (All)			

Aircraft (if not centrally assessed)		
	Aircraft	\$25 (All)

Example of Fee-in-lieu Charges as Percent of Property Value



Source: Utah State Tax Commission

Tangible Personal Property

Personal property's share of property tax values has declined over the past two decades due to both underlying property value changes and policy decisions such as exemptions and the shift to a "fee-in-lieu" property tax for certain assets required to be registered with the state, such as cars, boats, motorcycles, recreational vehicles, and airplanes. Although fee-in-lieu revenue is administered together with state registration fees, the Tax Commission allocates these fee-in-lieu funds to local taxing entities to be treated as general property tax revenue (unlike registration fees which support dedicated services such as motor vehicle registration fees for roads and aircraft registration fees for airports).

In the past several decades since the Legislature enacted fee-in-lieu charges based on age or other characteristics, the property tax share for these types of personal property has dropped in half for various reasons, including flat fees not adjusting for inflation. This shifts the tax burden to other property types.

Some elements of these changes have likely shifted the property tax downward over time to those toward the lower end of the economic spectrum. For example, the owner of a brand new \$100,000 BMW pays the same \$150 fee-in-lieu (0.15% of value) as the owner of a two-year-old \$20,000 Ford (0.75% of value). The owner of a \$500,000 plane pays a \$25 fee-in-lieu (0.005% of value).

"Personal Property" is a term referring to property that is not real property, and can be owned by an individual, a business, a government, a non-profit, or any other entity.

Unlike immobile real property, most personal property is highly mobile. This mobility alters the economics of taxation relative to immobile real property, as well as creating administrative challenges. Over time, a policy shift emphasizing administrative simplicity has outweighed the equity implications of not taxing all property according to market value.

Household Personal Property

Household personal property is either taxed through a fee-in-lieu of the *ad valorem* property tax (cars, boats, motorcycles, recreational vehicles, and airplanes) or is exempt (household furnishings and equipment).

Business Personal Property

Depending on the property type, business personal property is taxed under the *ad valorem* property tax; subject to a fee-in-lieu of the *ad valorem* property tax if required to be registered with the state (vehicles, boats, recreational vehicles, planes); or exempt (inventory, various farm-related personal property including livestock, machinery, and equipment, irrigation equipment, and business personal property with aggregate value below \$25,000 or meeting certain thresholds for exemption). For business personal property subject to the *ad valorem* tax, taxpayers work with assessors to track this property over time, which creates an administrative burden borne by the taxpayer as well as assessors.

While locally assessed personal property taxation has declined over time, personal property (including fee-in-lieu) still constitutes a large share of taxable values in some counties, as shown in Figure 29. For example, personal property (including fee-in-lieu) makes up 27% of the property tax base in Beaver County, 22% in Iron County, and 18% in Box Elder County.

Economic Effects

Property taxes are generally more economically efficient than alternative major taxes.

Tax Shifting

Tax incidence studies contemplate who bears the ultimate economic burden of a tax. This may or may not be the same as the person who bears the initial legal incidence of the tax by remitting funds to government. In other words, sometimes tax burdens shift to customers, suppliers, employees, or shareholders by the person or entity who directly pays taxes.

For example, businesses ultimately shift all taxes to people. That is, businesses are conduits through which taxes shift to individuals. Common tax shifts to people include to business owners in the form of lower profits, to consumers in the form of higher prices, and to employees in the form of lower wages. Price elasticity of supply and demand will determine the ultimate incidence, with greater inelasticity leading to a buyer or seller bearing a larger portion of the economic incidence.

For example, in tight rental markets, landlords likely shift property tax burdens to renters over time by increasing rents to cover property taxes.

An Old Tax Already Incorporates Many Tax Shifts

At the time of statehood and the original enactment of the Utah Constitution, property taxes funded most of state and local government. This long-standing property tax history means that economic prices, particularly property values, already incorporate economic shifts from long-existing property taxes. This is one reason for the tax adage "An old tax is a good tax."

Economic Incidence Estimates

Figure 34 shows economic incidence estimates by annual income range for the major taxes imposed by Utah state and local governments on working-age households. Although some uncertainty exists because of tax shifting assumptions, these estimates align with common national assumptions. As shown, the estimated property tax incidence falls between progressive income taxes and regressive sales and excise taxes. Within the property tax, property taxes imposed on households for homes (both owned and rented) and vehicles vary by annual income quintile, but are regressive in the highest income levels. That is, those at the highest income levels pay a smaller share of their income for these property taxes. Property taxes on businesses are assumed to be largely distributed to owners of capital, leading to progressive tax impacts. Economic literature suggests that when measured over a lifetime, progressive taxes tend to be less progressive and regressive taxes less regressive because income flows change over a lifetime.

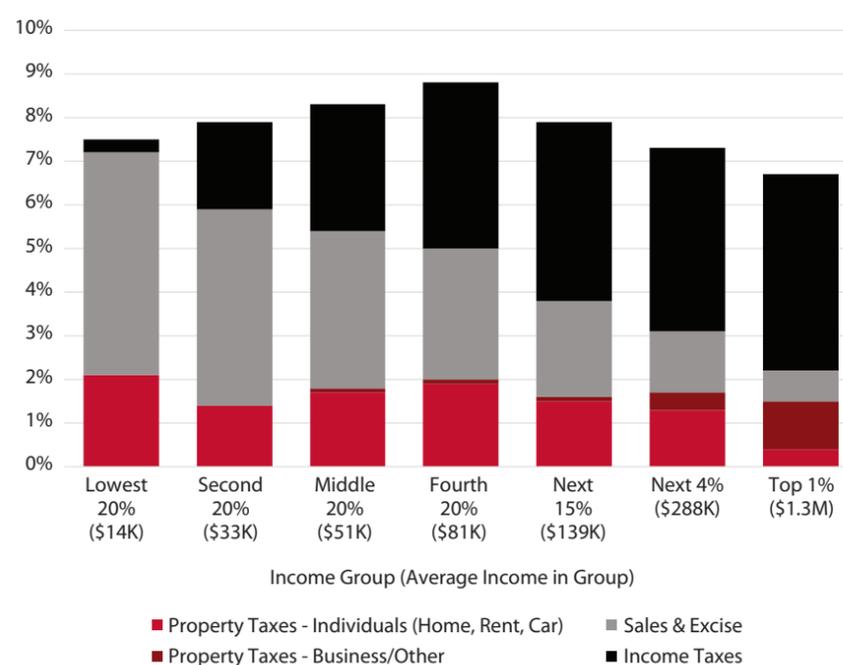
A rich literature examines the economic incidence of the property tax. While there is not unanimous consensus on the property tax's economic incidence, a few themes emerge from the literature.

- 1 Because of land's inelastic supply, property taxes on land are borne by the owner of the property at the time the tax is imposed. This means property taxes are capitalized into land values.
- 2 Because of the ties between property taxes and local government services to property, people have some ability to vote with their feet and select their desired level of government services by choosing to live in a community with their desired service levels. This means benefits funded with property taxes are capitalized into property values and also makes at least a portion of the property tax like a free market purchase of goods and services.
- 3 Property ownership skews to those with higher income levels and wealth, although intangible property (which is the type of property most skewed toward those with the highest wealth and income levels) is generally not taxed.

Source: Kem C. Gardner Policy Institute based on literature review

Figure 34: Estimated State and Local Tax Burden as a Percent of Annual Income for Utah Working-Age Households

Major Taxes Impact Households Differently



Note: Estimates include impacts of Utah-imposed taxes, so they exclude impacts of taxes imposed in other states that are borne by Utah residents

Source: Institute on Taxation and Economic Policy

What is Tax Capitalization?

Broad econometric evidence indicates that property tax changes are largely capitalized into (reflected in) property values. This means that, all else equal, the value of a property decreases when the tax on a property increases. Similarly, to the extent clear public benefits occur, such as an improved school system or enhanced police and fire and protection of property, those benefits are also capitalized into increased property values.

Advocates of general obligation bonds for infrastructure argue that repaying the debt with property tax ensures that future property owners help pay for that infrastructure over time. However, this does not take into account the economics of the property tax. Due to capitalization of property taxes into property values, the owner at the time of a property tax increase bears the economic burden of the tax through decreased property values.

While many mechanisms likely drive the capitalization process, a prospective homeowner looking to finance a property with a mortgage shows an example of capitalization

Example of Property Tax Capitalization from Tax Increase

	Prior to Property Tax Increase	After Property Tax Increase
Annual Property Tax	\$1,500	\$2,000
Principal Value	\$400,000	\$390,000
Monthly Principal and Interest (30 year, 3% interest rate)	\$1,686	\$1,644
Monthly Property Tax (1/12 of Annual Property Tax)	\$125	\$167
Monthly Principal and Interest Plus Property Tax	\$1,811	\$1,811

effects. Prior to a tax increase, a prospective homeowner may have been willing to pay \$400,000 for a property, with a monthly principal, interest, and tax payment of \$1,811. The tax increase reduces by \$10,000 the principal amount the prospective homeowner would be willing to pay, so the monthly payment ends up with the same \$1,811 payment. The property seller absorbs the economic impact of this tax increase through a reduced property sale value.

Capitalization Example – Public Service Benefits



Economic Efficiency and Equity with Taxes on Land Values

What creates the value of land (as opposed to all real property including improvements on that land)? Location, location, location. In other words, given certain natural endowments with land, society as a whole creates land values—often through public investments in roads, utilities, and other public infrastructure. Through their own effort, individuals create the value of improvements to land, such as buildings, fences, gardens, etc.

Land has unique economic characteristics because of its inelastic supply. This means the supply of all land does not vary with prices. While people can change what they build on and do with land, people cannot create more or less land. Because

of this, a property tax on land is a highly economically efficient tax, meaning it minimizes the economic drag from taxes (“deadweight loss”)—though it may change economic incentives for how the land is used toward the highest and best use.

In addition, as an equity consideration, the ownership of land tends to skew toward the upper end of the income spectrum.

Land market values of taxable property in Utah are estimated at \$128 billion, which is 30% of real property and 26% of total *ad valorem* property market values.

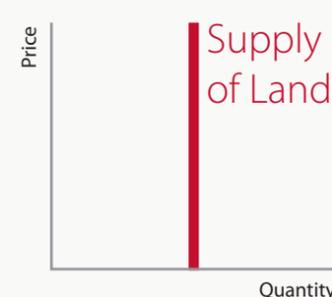
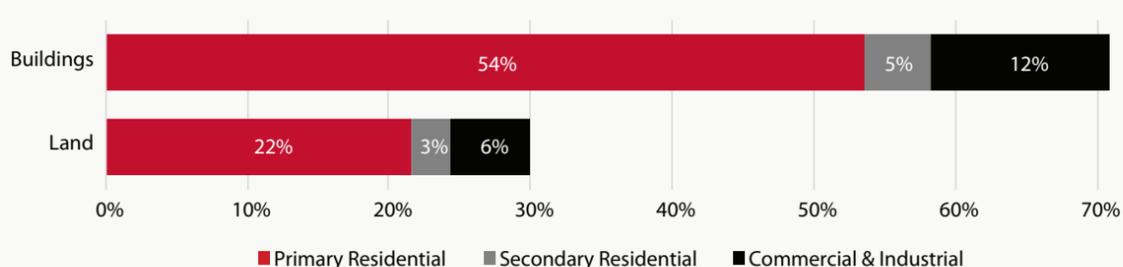


Figure 35: Land vs. Improvements as a Share of Locally Assessed Real Property, 2020

Land Constitutes About 30% of Real Property Values

Source: Utah State Tax Commission



State and Historical Comparisons

Like other Intermountain states, Utah's property tax revenues rank low compared to the nation. Utah's property taxes on residential property as a percentage of housing market value rank 43rd (see Figure 32) and Utah's per capita property taxes rank 35th (see Figure 39).

As of 2019, the U.S. Census Bureau reports that 36 states impose a state-level property tax. However, even in states imposing a

property tax, local governments impose the vast majority of property taxes (about 97% of total property taxes nationwide), which provides a locally controlled revenue source. The State of Utah has not collected a property tax itself since 1973, although it (a) requires certain statewide taxes to equitably fund schools under the Minimum School Program and to administer property taxes, and (b) the Legislature authorizes state property tax imposition when issuing general obligation bonds.

Figure 36: Utah Property Tax Revenues Per \$1,000 of Personal Income, 1929–2019

Utah Property Tax Revenues Nearly Pace with Personal Income Growth

Source: Utah State Tax Commission and U.S. Bureau of Economic Analysis

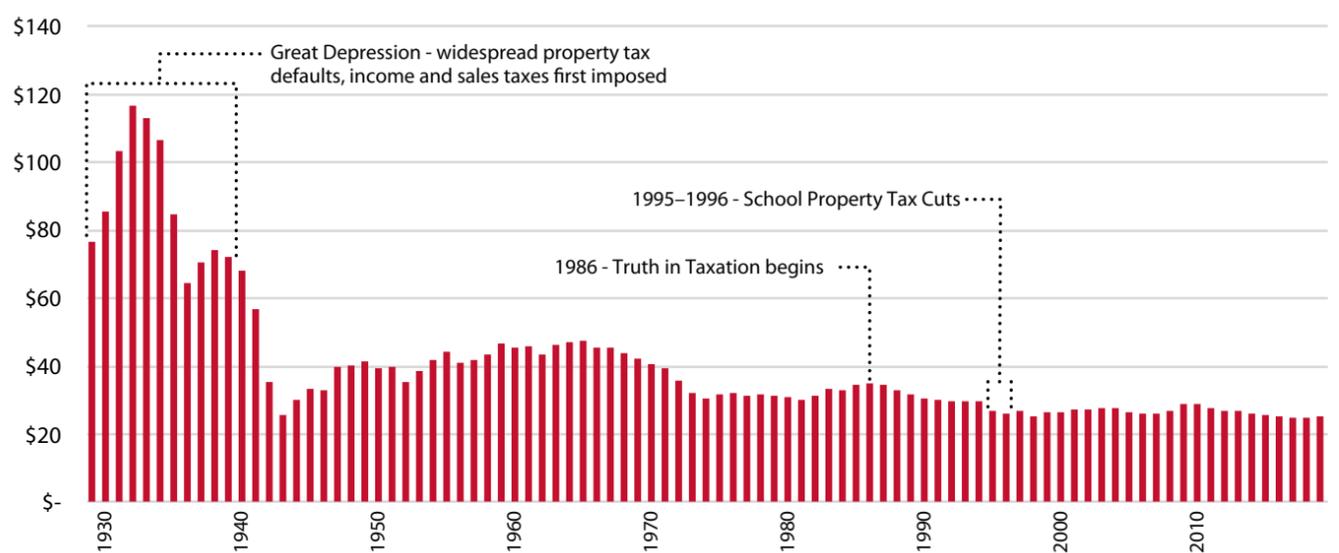
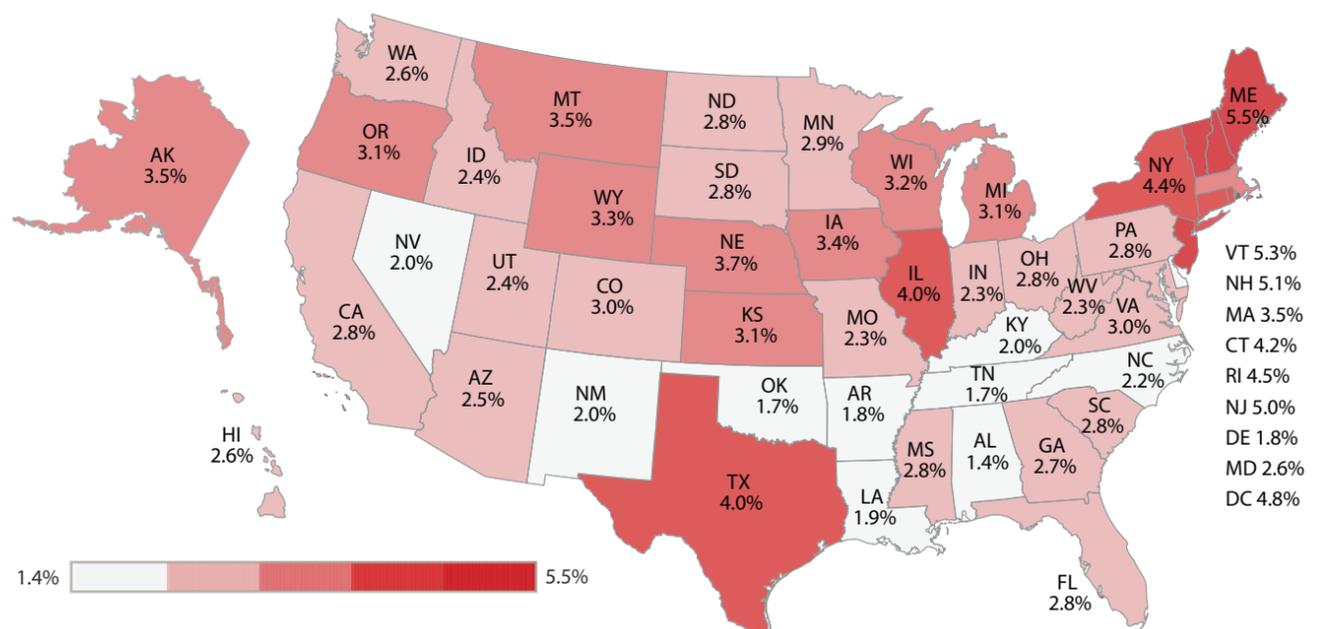


Figure 37: State and Local Property Tax Revenue as a Percent of Personal Income by State, 2019

Utah Property Tax Revenue as a Share of Personal Income is Less than Most States

Source: U.S. Census Bureau Annual Survey of State and Local Government Finances and U.S. Bureau of Economic Analysis



“ Among the natural rights of colonists are these: First, a right to life; Second, to liberty; and Third, to property. ”

–Samuel Adams

Figure 38: Real (2020 dollars) Utah Property Tax Revenues per Capita, 1940–2020

Utah Property Tax More than Paces with Total Population Growth and Overall CPI Inflation

Source: Utah State Tax Commission and Kem C. Gardner Policy Institute

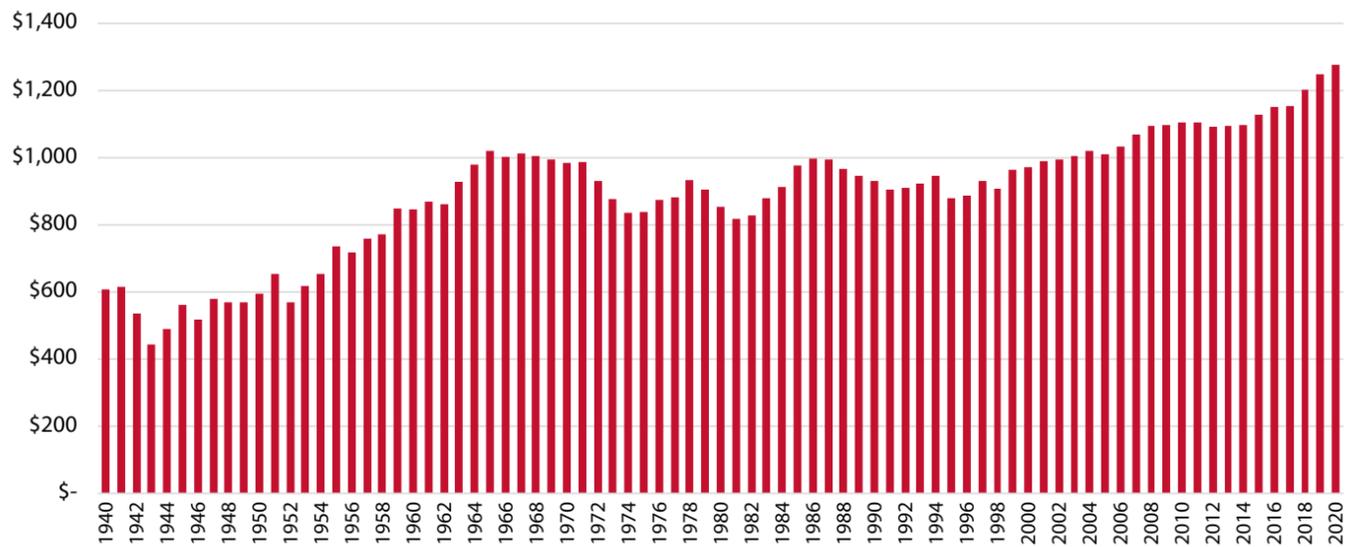


Figure 39: State and Local Property Tax Revenue per Capita, 2019

Utah Property Tax Revenue Per Capita is Less Than Most States

Source: U.S. Census Bureau Annual Survey of State and Local Government and Population Estimates

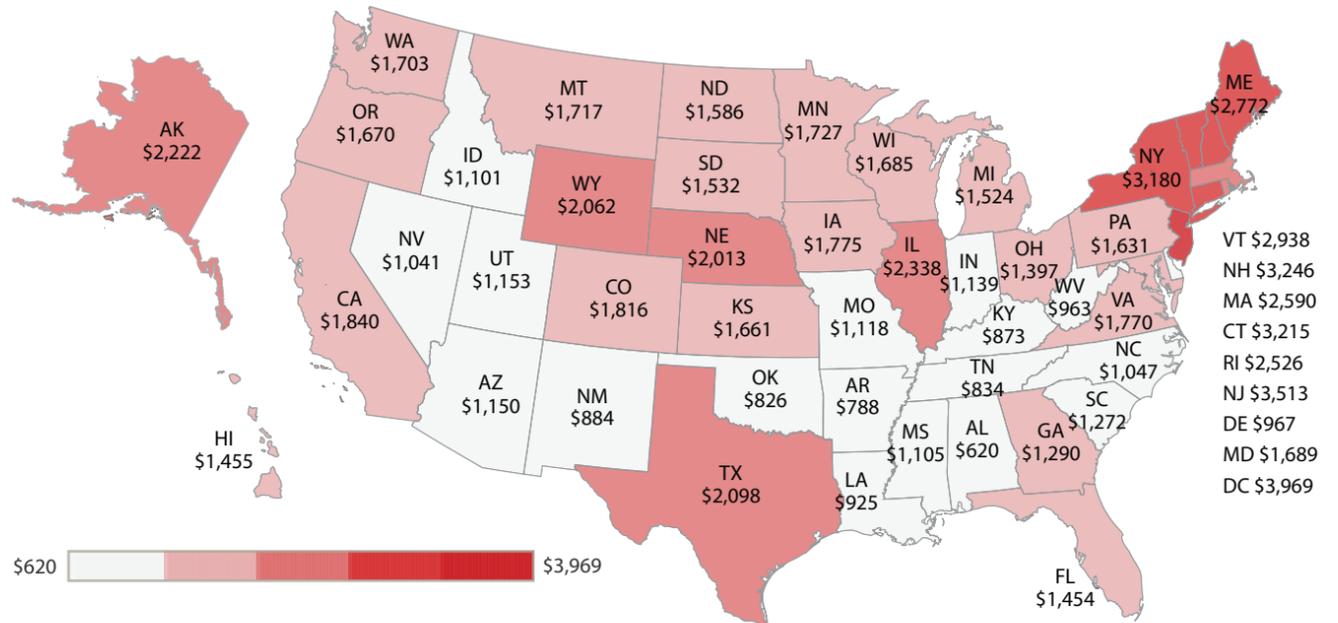
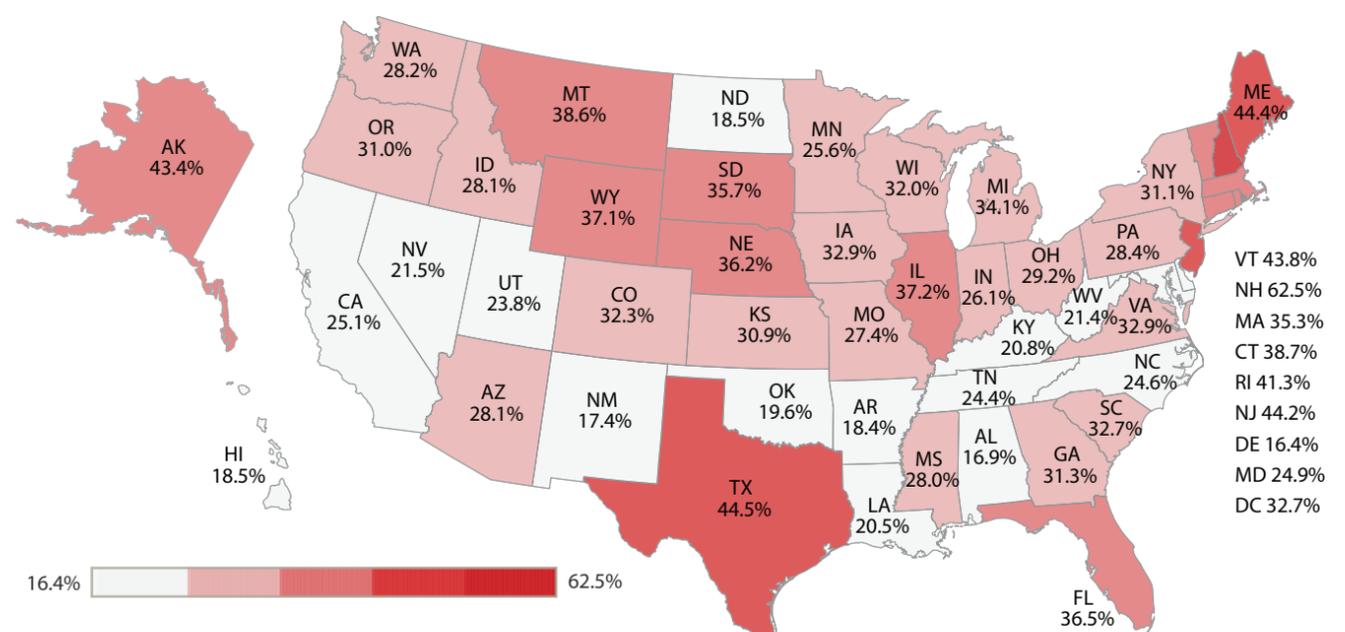


Figure 40: State and Local Property Tax Revenue as a Share of Total Tax Revenue, 2019

Utah Relies Less on Property Tax than Most States

Source: U.S. Census Bureau Annual Survey of State and Local Government Finances



“ A small land tax will answer the purpose of the States, and will be their most simple and most fit resource. ”

–Federalist No. 36

What's Next?

Understanding the past and present of Utah's property tax enables a more informed view of the property tax's future, which can be influenced both by market changes and policy changes. The property tax is a key piece of Utah's overarching fiscal structure. It serves as a major local tax revenue source, funding a wide array of critical public services, many closely tied to property and property values. General obligation bonds backed by property tax pledges also facilitate bond market access for major state and local infrastructure critical for a fast-growing state.

Property Tax Trends

A number of property tax trends merit attention, including the following:

- **School Property Taxes** – Until the last few years, a shift away from statewide school property taxes in favor of localized property taxes, which increases school funding disparities
- **Gradual Shift Away from Market Values** – A gradual shift away from a “general” (uniform) market-value-determined property tax, with exemptions and valuation methods that undermine a fair market value allocation of the tax burden taking precedence over the market's value determination
- **Reduced Business Share** – An increasing share of the property tax initially imposed on businesses shifting to residential real property for a variety of reasons, including more rapid growth in residential property market values than business values, requirements or political pressure to assess business property using valuation methods that may not reflect full fair market value, an increasing share of property values in untaxed intangible property due both to market factors and statutory definition changes for assessment purposes, and increasing personal property exemptions and fee-in-lieu share reductions
- **Technological Improvements** – Improvement in computer assisted mass appraisal (CAMA) systems that can increasingly facilitate accurate assessment when good data is available

Moving forward, how can policymakers maximize the property tax's benefits while minimizing its potential downsides? This balancing act is the challenge of policymaking. While a large number of options are available, the table shows potential policy levers to achieve different policy objectives with the property tax that have been raised or debated in recent years.

If your policy objective is to...	Then consider options to...
Equalize school property taxes statewide <i>(or further localize school property taxes)</i>	<ul style="list-style-type: none"> ■ Re-emphasize the statewide basic levy over local school taxes: <ul style="list-style-type: none"> • Increase, keep constant, or adjust basic levy rate for CPI inflation • If overall revenue neutrality is desired, offset increased allocations from statewide property taxes with local certified tax rate reductions ■ Equalize revenues (all or growth) from second homes, centrally assessed businesses, commercial property, or other non-residential property ■ Focus state income tax funds more on school districts with low property tax base making higher local tax effort <i>(or do the opposite to further localize school property taxes)</i>
Ensure market-driven factors drive distribution of property tax burden	<ul style="list-style-type: none"> ■ Ensure assessors have sufficient staffing, training, data, and up-to-date assessment tools ■ Cap, reduce, or eliminate various types of preferential tax treatment (such as exemptions and special valuation approaches) ■ Review statute, administrative rules, and assessment practices to determine if any laws, rules, or approaches inhibit fair market value assessment ■ Disclose property sale prices (could do so as private record or public record)
Adjust revenues (up or down) to match core service needs funded with property tax	<ul style="list-style-type: none"> ■ Determine appropriate service levels and change tax rates to generate desired revenue ■ Review tax rate caps to ensure they are designed appropriately in context of Utah's Truth in Taxation system
Encourage economic efficiency, including more efficient land use	<ul style="list-style-type: none"> ■ Place greater emphasis on user fees tied to usage levels and property taxes to fund services, especially property taxes on land (note that some approaches to an increased emphasis on land value taxes may require a constitutional change) ■ Cap, reduce, or eliminate various types of preferential tax treatment for real property (such as exemptions and special valuation approaches)
Minimize regressivity	<ul style="list-style-type: none"> ■ Ensure circuit breaker for low-income seniors is appropriately sized and easy for eligible taxpayers to access ■ Review alternatives to abate property taxes of the poor who are not seniors ■ Cap primary residential exemption ■ Adjust fee-in-lieu values to reduce regressivity ■ Create income tax credit for low-income households

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