



Property Tax & The Minimum Basic Rate

Context to 2022 Property Tax Changes | January 5, 2023

Summary

Multiple factors contribute to the amount of property tax a homeowner pays. While the Basic Rate and recent increases to that rate are factors in that tax obligation, other factors related to property tax also play a role. These factors include:

- A legislative policy change related to property tax notices;
- Dramatic increases in the taxable value of residential property across the state;
- The relative value of one property type compared to others (residential vs business or industry); and,
- Because the Basic Rate is a statewide property tax for public education it considers the value of property across the state and shifts the tax obligation among school districts based on the value of property in each.

During the 2018 General Session, the Legislature passed [House Bill 293, “Tax Rebalancing Revisions”](#) which implemented a 5-year “Freeze” to the Basic Rate, holding the rate at 0.0016. In normal circumstances, a property tax rate will decrease over time as the taxable value of property in an area increases. Holding the rate generates additional revenue off the increasing value. Through state formulas for public education, this allowed for increased property tax revenue to contribute to paying for certain legislative initiatives. A summary presentation on [“Tax Rebalancing for Utah Education”](#) explains this in more detail.

While the freeze to the Basic Rate was largely blamed for the increased property tax bills experienced by Utah homeowners in 2022, as highlighted above the freeze represents only a small factor in the overall story.

State Budgeted Property Tax Increase

The budgeted increase associated with the Basic Rate is relatively low in FY 2023 (Tax Year 2022) at \$33.3 million statewide. In the prior four years the annual statewide increase ranged from \$30.4 million to \$54.8 million. The FY 2023 amount is based on two factors:

1. The Equity Pupil Rate (the Freeze) which increased property tax revenue by \$8.3 million statewide in FY 2023; and
2. The WPU Value Rate, which indexes the local funding to changes in the WPU Value. This change increased property tax revenue by \$25.0 million statewide in FY 2023.

Taken in context with increases over the prior four years, the FY 2023 increase does not seem significant enough to fully explain resident concerns¹. The other factors mentioned above align differently in each taxing jurisdiction. This variability makes it difficult to isolate a single cause for resident concerns.

¹ The \$33.3 million increase budgeted for FY 2023 is an estimate based on information in Fall 2021. Due to taxable value increases across the state, indicators suggest that the statewide basic rate will generate more than estimated. Actual collections

Due to a dramatic increase in the value of residential property across the state, the actual collection of property tax revenue is estimated to be higher than budgeted. This produces a one-time revenue issue as the rate re-sets each year based on changes in taxable value and the amount of revenue that can be generated under statutory provisions.

Property Tax Factors

Of the factors mentioned in the summary, two provide important context to what occurred in 2022. While each are not singularly responsible for the dramatic increase, they both are factors along with the Basic Rate freeze.

Legislative Revisions to Property Tax Notices

[Senate Bill 200, “Revisions to Property Tax”](#) (2022 GS) – this Legislation changed the way counties show the Basic Rate on property tax notices. The two new components of the Basic Rate (Equity Pupil and WPU Value) increased in each of the prior four years, but the increase was masked on tax notices each year. Statute now requires counties to compare all revenue generated by the two rates to the “Minimum Basic Tax Rate”, which is what the statewide Basic Rate would be without the new rates. Resulting in the following:

- a. All five years of increases to the statewide Basic Rate were shown as occurring in FY 2023 (Tax Year 2022); and
- b. The Basic Rate has a higher reporting obligation on property tax notices than other property tax rates – instead of comparing a proposed change to revenue collected in the prior year it shows the total change since a certain legislative policy change was enacted.

Increase in Taxable Value of Residential Property

The taxable value of residential property in multiple counties across the state have increased dramatically in the past five years. Fiscal analyst staff reviewed several tax notices for properties in south-west Utah, looking at both primary and secondary residential properties. In 2022, taxable values increased by over 111 percent and 96 percent, respectively. When looking at just the last year, 2021 to 2022, values increased by over 66 percent and 80 percent, respectively. This increase impacts homeowner tax obligations in two ways:

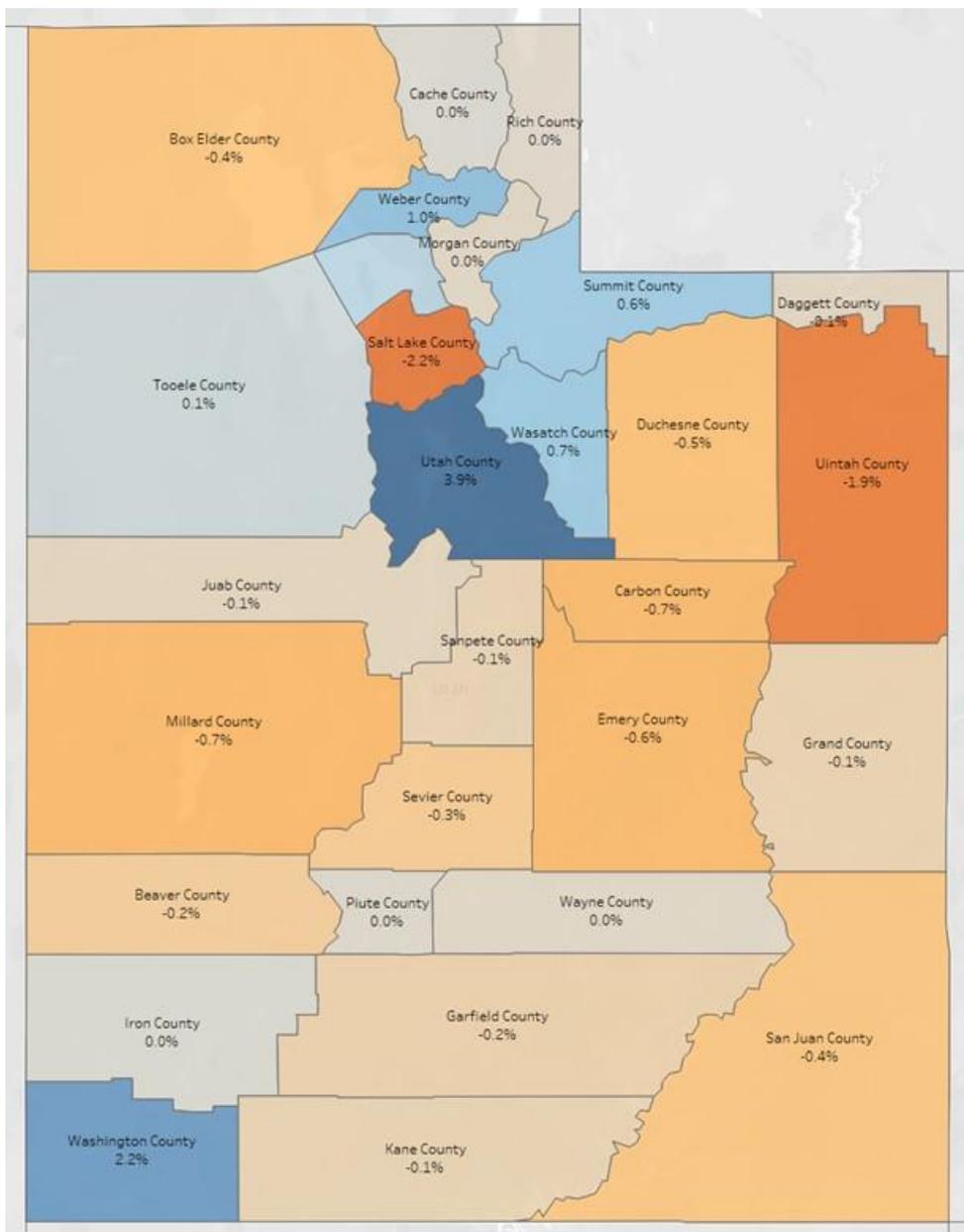
- a. *Changes in Value Among Tax Types* – A recent article in the [Deseret News](#) explains how under the “certified tax rate” all properties within a jurisdiction are considered in setting tax rates each year. The tax burden of a primary residential owner “depends on how other properties – not just residential, but also commercial and other property types – fared in the same time period.” Commissioner John Valentine of the Utah Tax Commission suggested that residential properties may have increased faster than other property types (business, industrial, agricultural, etc.) resulting in a shift of burden to residential properties.
- b. *Shift Among School Districts* – Statute requires that the wealth of a student’s school district not factor into the student receiving a “relatively equal educational opportunity.” The Basic Rate relies on the combined taxable value of each school district to meet a revenue target, a total of

are reconciled with state appropriations each May. Since the basic rate is re-estimated each year, an “over-collection” will show up in the budget as a one-time nonlapsing balance in the Basic School Program.

\$679.3 million in FY 2023. Each school district levies the same tax rate and generates an amount to contribute to the total based on the value of property in their jurisdiction. The relative burden may shift among school districts each year based on changes in the value of property across the state.

For example, in 2012, Washington County paid 5.2 percent of the statewide target. In 2022, this had increased to 7.4 percent. Washington County had one of the highest net value increases over the past decade as shown on the following map.

Blue = Increase | Orange = Decrease in Taxable Value



Conclusion

Based on the information presented, the Equity Pupil Rate (Freeze) and WPU Value Rate (Indexing) do not appear to be the core issue, but only part of a bigger issue. Due to changes in S.B. 200 "[Revisions to Property Tax](#)," and how components of the basic rate are reflected to homeowners may make this an issue each year. The Equity Pupil and WPU Value rates were established to meet specific legislative goals and provide an alternative to the "Our Schools Now" initiative. The Legislature may want to review these goals and outcomes further. Since much of the current issues are also based on dramatic increases in the value of residential property, the Legislature may want study if this is a short or long-term issue and what changes could be made relative to primary residential properties.