

**MINUTES OF THE  
PROPERTY TAX WORKING GROUP  
TAX REFORM TASK FORCE**

Thursday, July 21, 2005 – 10:00 a.m. – Room W110 House Building

**Working Group Members Present:**

Sen. Mike Dmitrich, Chair  
Rep. Gordon E. Snow, Chair  
Rep. John Dougall  
Comm. Pam H. Hendrickson

**Other Members Present:**

Rep. Wayne A. Harper  
Sen. Howard A. Stephenson  
Rep. Todd E. Kiser

**Staff Present:**

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

Note: A list of others present, copy of related materials, and an audio recording of the meeting can be found at [www.leg.utah.gov](http://www.leg.utah.gov).

**1. Working Group Business**

Chair Snow called the meeting to order at 10:05 a.m.

Staff distributed a list of truth in taxation issues and recommendations for changes, based on testimony from taxing entities provided at the July 13, 2005 meeting.

**MOTION:** Ms. Hendrickson moved that staff be directed to draft legislation to implement these recommendations. The motion passed unanimously.

**2. Property Tax Exemption for Primary Residences**

Ms. Oakes distributed "Background and Related Materials: Property Tax Exemption for Primary Residences - Background, History, and Homestead Exemptions in Other States." She reviewed the property tax exemption for primary residences and said that in 1982 Section 2 of Article 13 of the *Utah Constitution* was amended to allow the Legislature to provide a residential exemption of up to 45% of the fair market value of residential property. She explained that this constitutional amendment was implemented in 1987 and the property tax exemption was set at 25% of the fair market value of the residential property. She explained that this was then gradually increased until reaching the constitutional maximum of 45% in 1995. Ms. Oakes also reviewed "A Guide to Property Taxes: Property Tax Relief" published by the National Conference of State Legislatures. She reviewed selected states' laws that also grant property tax relief to primary residences.

Mr. Mike Jerman, Vice President, Utah Taxpayers Association, told the Working Group that his organization has no position on the primary residential exemption. He said that providing a 45% property tax exemption shifts the property tax burden to other classes of property. His organization estimates that the shift is about \$205 million from primary residential to other classes of property including residential, centrally-assessed, secondary residential, and unimproved land. He said that if good tax policy is to have a broad base and low rates then perhaps this primary residential exemption should be examined.

Mr. Brent Gubler, property owner and taxpayer, told the Working Group that all residential property should be taxed at 100% of its fair market value and then the rate lowered accordingly. He said that the current inequality in how residential property is taxed violates the due process and equal protection clauses of the constitution.

Mr. Jerman said that if the residential exemption were to be eliminated, then property tax rates could be reduced by an average of 30%.

Sen. Dmitrich requested that staff prepare a county by county analysis on the shift in property tax burden due to the primary residential exemption.

Mr. Roger Tew, Utah League of Cities and Towns, told the Working Group that he was an employee of the Legislature when the constitutional amendment was considered. He said that this provision was designed to provide property tax relief after the State Supreme Court had struck down as unconstitutional other property tax relief efforts. He said that the intent of the Legislature was that every full time resident of the state should be able to claim one exemption for one residential property -- either a home, apartment building, or other type of residential dwelling. The intent of the Legislature was to provide modest tax relief while keeping everything else uniform and avoiding a classification system.

Mr. Tew said that the more of the property tax base that is exempt, then the tax must be shifted to other taxpayers. He said that the real issue that for local governments is that the property tax exemption has created a situation where primary residences now do not cover the cost of services to those dwellings. He said that the Legislature should consider these three policy issues with regards to the primary residential exemption: 1) how important of a source of revenue should property taxes be for local governments, 2) how should a residential exemption be structured, and 3) how is the property tax burden to be shared among all taxpayers.

Mr. Tew said that his organization does not have a position on the primary residential exemption. He said that because the property tax does not cover the costs of core services, that most municipalities impose impact fees which are essentially targeted property taxes.

Rep. Dougall asked what percent of the cost of services do primary residences cover. Mr. Tew said that a rough calculation is that primary residences only provide funding for one-third of the cost of services.

### **3. Extending the Residential Exemption to Secondary Residences**

Mr. Howe distributed "Property Taxes: Where Does the Money Come From?" and "Percent Secondary Residence Value is of Total Taxable Value." Mr. Howe explained that for the 2003 tax year primary residential property made up 44% of total property taxes charged for that year, while secondary residential property made up 5.2% of property taxes charged. He said that while secondary residences make up a small proportion of property taxes paid on a statewide basis that the proportion varies significantly between counties. He explained that in Rich County secondary residences constitute more than 50% of the total taxable value of that county.

Mr. Keith Hancock, property taxpayer, told the Working Group that he owns a second home in Summit County and that he receives no services from that County or no benefits from the property taxes paid.

Ms. Mary Ellen Pugsley, Big Cottonwood Canyon Community Council, distributed a handout concerning the need for an equitable tax structure for primary and secondary residences. She said that all residential property should be treated equally.

Rep. Snow said that it is not appropriate to compare tax rates between counties because citizens in different counties demand different levels of services from local governments.

Mr. Jerman said that while it is true that secondary residences do not receive significant levels of services for the taxes that they pay, the Legislature has never linked levels of services with levels of tax. Taxes are based on transactions, wealth, and income. He said that the Working Group should consider whether extending the residential exemption to secondary residences would increase economic development or are there better ways to achieve this goal. He also said that he agrees with the need to avoid a classification system.

Ms. Barbara Kessler, Summit County Assessor, told the Working Group that the constitution requires her to assess for property tax purposes all property at 100% of fair market value. She said that extending the residential exemption to owners of secondary residences would increase taxes on primary residence and small business.

Mr. Steve Farrell, Wasatch County Council, told the Working Group that secondary residences significantly vary in value from very small cabins to large homes. He said that if the primary residential exemption were extended to secondary residences that property taxes for other taxpayers in his county would increase by 22%.

Supt. Terry Shoemaker, Superintendent, Wasatch School District, distributed a handout showing the effects with a property tax shift or lost revenue if the primary residential exemption were to be extended to secondary residences.

Mr. Zane Woolsteinhulme, Business Administrator, South Summit School District, distributed a handout showing the effect on his school district of extending the primary residential exemption to secondary residences. He told the Working Group that the property tax is one of the few revenue sources over which school districts have control.

Rep. Snow asked whether the taxing entities would support Sen. Mayne's bill that provides state revenue to make up the loss of property tax revenue. Supt. Shoemaker said that he would still be concerned with the effects of a property tax shift to other taxpayers.

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

Chair Dmitirch adjourned the meeting at 12:00 p.m.