

**MINUTES OF THE  
UTAH TAX REVIEW COMMISSION**

Friday, August 12, 2005 – 1:00 p.m. – Room W125 House Building

**Members Present:**

Mr. M. Keith Prescott, Chair  
Mr. David Crapo, Vice Chair  
Sen. Lyle W. Hillyard  
Rep. Wayne Harper  
Mr. Larry Barusch  
Mr. Mark K. Buchi  
Dr. Gary Cornia  
Ms. Janis A. Dubno  
Ms. Kathleen Howell  
Comm. Bruce Johnson

**Members Absent:**

Sen. Brent Goodfellow  
Rep. Rosalind J. McGee  
Mr. Bruce Jones  
Mr. Dixie Leavitt

**Staff Present:**

Mr. Bryant Howe, Assistant Director  
Ms. Angela D. Oakes, Associate General Counsel  
Ms. Rebecca L. Rockwell, Associate General Counsel  
Mr. Leif G. Elder, Research Assistant  
Ms. Phalin L. Flowers, Legislative Secretary

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

**1. TRC Business**

Vice Chair Crapo called the meeting to order at 1:12 p.m.

**MOTION:** Mr. Prescott moved to approve the minutes of the July 15, 2005 meeting. The motion passed unanimously with Sen. Hillyard, Rep. Harper, and Mr. Buchi absent for the vote.

Mr. Crapo gave an update on the working group on estates and trusts. He listed the membership and explained the issues that this working group is reviewing.

Dr. Cornia gave an update on information being collected in response to Sen. Waddoups' request regarding the tax exempt status of hospitals owned by Intermountain Health Care, Inc. He explained that he is working with the Property Tax Division of the Tax Commission (Utah State Tax Commission) to develop an appraisal manual for use by county assessors in determining the fair market value of tax exempt hospitals.

Mr. Howe distributed and discussed "Working Group Final Recommendations as of July 21, 2005." He explained that the document contains the current recommendations from the working groups of the Tax Reform Task Force. Mr. Howe noted that he expects that additional recommendations will be adopted as the Task Force continues its work.

**2. Review of Sales and Use Tax Exemptions**

Ms. Rockwell presented "Sales and Use Tax Exemption for Isolated or Occasional Sales." She explained that the TRC made a motion requesting staff to review other states for guidance to clarify Utah's exemption for isolated or occasional sales without changing the exemption's substance. She reviewed isolated or occasional sales exemptions for several other states. Ms. Rockwell explained that Larry Barusch and Mark Buchi worked with her to prepare draft legislation amending Utah's exemption for isolated or occasional sales. Ms. Rockwell distributed and discussed 2006 General Session draft legislation "Sales and Use Tax - Exemption for Isolated or Occasional Sales."

Mr. Barusch suggested inserting language to clarify that a sale is not exempt if an item is purchased with the intent that the item be resold.

**MOTION:** Dr. Cornia moved to ask the Utah State Tax Commission to review the draft legislation and provide suggestions and recommendations to the TRC. The motion passed unanimously.

Ms. Rockwell distributed and discussed 2006 General Session draft legislation "Sales and Use Tax Exemption for Transportation" and "Sales and Use Tax Exemption for Certain Transportation of Passengers."

Staff distributed two fiscal note memos from the Office of the Legislative Fiscal Analyst concerning the draft legislation. Dr. Cornia said that the memos do not contain sufficient background information to understand how the estimates of the revenue effects were determined.

**MOTION:** Sen. Hillyard moved to defer action on "Sales and Use Tax Exemption for Transportation" and "Sales and Use Tax Exemption for Certain Transportation of Passengers" and request that the Office of the Legislative Fiscal Analyst make a presentation on the fiscal impacts of those bills. The motion passed unanimously.

### **3. Land Value Tax Study**

Dr. Lawrence Walters, Lincoln Institute of Land Policy, presented "Recapturing Value for Transportation Financing: Second Update." He gave an update on what the TRC's Land Value Tax Subcommittee is studying. He explained that it had several site visits with county assessors around the state and reviewed each county's process for developing land values and discussed the impacts a land value tax would have on each county's assessment practices. Dr. Walters also explained how land values are determined.

Mr. Prescott asked what barriers the lack of mandated sales price reporting has on determining land values. Dr. Walters replied that it is difficult to determine but that his sense is that county assessors currently have sufficient information to defend land values in an appeal's process. While more data would improve the accuracy of assessments, a fair and practical system now exists. Dr. Walters also said that many counties now have access to sales prices data through multiple listing services. However, there is not access to transactions not listed through these services.

Ms. Howell commented that county assessors arrive at the best possible assessment given the available sales data. However, assessments would improve if additional data were available.

Mr. Buchi requested that staff review issues associated with the use of revenues from the assessing and collecting property tax levy. He also requested a report on how counties are complying with the budget and accounting requirements adopted in 2005 General Session S.B. 161, "Amendments to the Property Tax Valuation Agency Fund Assessing and Collecting Levy."

Mr. Karl Hendrickson, Legal Counsel, Utah Association of Counties, told the TRC that S.B. 161 requires counties to separately budget and account for revenues received from the assessing and collecting levy.

Mr. Johnson requested that staff review the constitutional issues regarding imposition of a property tax on the value of land.

Sen. Hillyard emphasized that the agricultural community needs to be fully involved in this study process. He said that a land value tax should not punish agricultural production.

#### **4. Oil and Gas Severance Tax**

Mr. Howe distributed and discussed "Oil and Gas Severance Tax Revenues," "Revenues by Oil and Gas Producing County," "Property Tax -- Taxable Value of Oil and Gas Extraction Property, 1992 to 2003," "Property Taxes Charged on Oil and Gas Extraction Property 1988 to 2004 Tax Years," "Taxable Values on Oil and Gas Extraction Property 1988 to 2005 Tax Years," "Total Property Tax Rates by County," "Utah Oil and Gas Production by Land Ownership," and "Well Statistics."

Mr. Morris Jackson, Questar, distributed and discussed "Questar Market Resources: E & P Operations," "Questar Exploration and Production Company: Sample Well Ownership," and "Severance Tax Issues - Comparison with other states."

Mr. Barusch distributed and discussed a memoranda concerning the review of the severance tax rate structure. Among other things, the memo proposes a graduated set of tax rates depending on the value of the commodity. It also recommends that since these commodities are a nonrenewable resource, that all revenue received from the tax above \$25 per barrel be deposited into a trust fund. This would introduce stability in budgeting for expenditures associated with these revenues.

Mr. Johnson remarked that the severance tax is a way for the state to recoup some of the value of its resources.

Mr. Prescott emphasized that the TRC should devise a simple and efficient oil and gas severance tax and remember that exploration and production decisions by industry are complex.

Mr. Crapo asked Mr. Jackson if his company had any suggestions for changes to the oil and gas severance tax. Mr. Jackson replied that he has no specific recommendations other than to set aside some revenues in a trust fund. He also said that the TRC should not simply compare effective severance tax rates between states and that there are many other factors that should be considered, including royalties.

Dr. Cornia said that one reason to have an oil and gas severance tax is to preserve an asset for the future. This is why the tax is imposed on gross proceeds, not net proceeds. The tax should be collected when the commodity is severed from the ground.

Ms. Dubno said that she would be willing to develop two or three alternatives on how to structure a trust fund and what revenues should be deposited into a trust fund.

**MOTION:** Mr. Buchi moved that all or part of the revenues from the severance tax on oil and gas be deposited into a trust fund. The motion passed unanimously with Sen. Hillyard and Rep. Harper absent for the vote.

**MOTION:** Dr. Cornia moved to review impact fees to ensure that they are allocated to counties that are actually impacted. The motion passed unanimously with Sen. Hillyard and Rep. Harper absent for the vote.

Minutes of the Utah Tax Review Commission  
August 12, 2005  
Page 4

Mr. Prescott thanked the representatives from Questar Incorporated for their information and participation in the TRC's review of the oil and gas severance tax.

**5. Other Items / Adjourn**

**MOTION:** Mr. Prescott moved to adjourn the meeting. The motion passed unanimously.

Vice Chair Crapo adjourned the meeting at 4:52 p.m.