

**MINUTES OF THE
REVENUE AND TAXATION INTERIM COMMITTEE**

Wednesday, October 17, 2007 – 2:00 p.m. – Room W135 House Building

Members Present:

Sen. Wayne L. Niederhauser, Senate Chair
Rep. John Dougall, House Chair
Sen. Brent H. Goodfellow
Sen. Howard A. Stephenson
Rep. Tim M. Cosgrove
Rep. Craig A. Frank
Rep. Gage Froerer
Rep. Wayne A. Harper
Rep. Gregory H. Hughes
Rep. Bradley G. Last
Rep. Rosalind J. McGee
Rep. Carol Spackman Moss
Rep. Merlynn T. Newbold
Rep. Gordon E. Snow
Rep. Aaron Tilton
Rep. Stephen H. Urquhart

Members Absent:

Sen. Curtis S. Bramble
Sen. Mike Dmitrich
Pres. John L. Valentine
Rep. Ralph Becker

Staff Present:

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

Note: A list of others present, a copy of related materials, and an audio recording of the meeting can be found at www.le.utah.gov.

1. Committee Business

Chair Dougall called the meeting to order at 2:10 p.m.

Staff distributed a report from the Tax Commission (Utah State Tax Commission) regarding recent modifications to the Internal Revenue Code that are likely to affect state revenues.

Mr. Dean distributed and discussed "Revenue Summary - First Quarter FY2007-08."

2. Improving Utah's Property Tax System

Mr. Richard Bay, General Manager, Jordan Valley Water Conservancy District; Mr. Tage Flint, General Manager, Weber Basin Water Conservancy District; Mr. Don Christiansen, General Manager, Central Utah Water Conservancy District; and Mr. Mike Wilson, General Manager, Metropolitan Water District of Salt Lake and Sandy, distributed "Improving Utah's Property Tax System," and gave a presentation on this handout. They explained the water conservancy districts' recommendations for dealing with property tax "spikes" through a tax equalization approach. They also recommended that no change be made to the existing statutory authority of water conservancy districts to impose a property tax.

Sen. Goodfellow asked how water conservancy districts that are governed by appointed boards are held accountable by the public. Mr. Flint said that his board is required to hold truth in taxation hearings, and has modified proposed property tax rate increases after holding public hearings. Mr. Bay said that board members are appointed by elected municipal and county officials.

Mr. Bruce Williams, Assistant Superintendent and Business Administrator, Davis School District, representing Utah School Business Administrators, explained the recommendations of the Utah School Business Administrators to reduce property tax burdens. He said that one reason why some taxpayers

have experienced high increases in property taxes this year is because in some counties not all property is annually reassessed. He also said that there could have been some shifts within a taxing entity that cause the property taxes for some taxpayers to increase more rapidly than for others. Another reason for large property tax increases may be property tax rate increases that were previously approved by voters (such as debt service levies and voted leeway levies) but only recently imposed. He suggested that all property be annually reassessed to ensure that assessed value is equal to fair market value. Mr. Williams also suggested that the method used to calculate the property tax levy under the state supported voted leeway program be changed to avoid a required increase every three years.

Mr. Roger Tew and Mr. Lincoln Shurtz, Utah League of Cities and Towns, distributed and discussed "Municipal Property Tax Review." They explained that although cities and towns receive a small portion of property tax revenues (15 percent), these revenues are still an important source of revenue for municipalities. They said that there has been a gradual shift away from property taxes to sales and use taxes to fund municipal services.

Mr. Tew emphasized that it is important to not make radical changes to the state's property tax system on the basis of the experiences of a single year. He said that a well-funded appraisal system is needed to ensure that assessed values stay current with fair market value. Mr. Tew also said that infrequent and large increases in a taxing entity's certified tax rate is one result of the current truth in taxation system. Because there is no incentive for a taxing entity to annually increase its certified tax rate, the taxing entity waits for several years and then imposes a large increase. Mr. Tew said that this is one cause of uncertainty for taxpayers.

Rep. Hughes commented that property taxes could be reduced if an alternative funding source for school districts could be found.

Sen. Stephenson said that it is important that county assessors regularly and accurately determine the fair market value of all property. He said that all geographical areas of a taxing district should be assessed at current fair market value for property tax purposes.

Ms. Pam Hendrickson, Chair, Tax Commission, and Mr. Denny Lytle, Director, Property Tax Division, Tax Commission, distributed and discussed a packet of information on improving Utah's property tax system. They explained how counties are currently assessing properties, how the sales ratio studies are conducted by the Property Tax Division, how the certified tax rate is computed, and how the Tax Commission takes corrective action when needed. They reviewed several recommendations on how to improve the current property tax system, including establishing a statewide property tax management information system to be administered jointly by the Tax Commission and counties, and requiring that sales prices be publicly disclosed in all real property transactions.

Mr. Arie Van De Graaff, Utah Association of Counties, said that the current property tax system is working and urged the Committee to proceed cautiously when changing the property tax provisions of the Utah Constitution. He suggested that the Committee examine how centrally assessed property is valued and also review the distribution of revenue from the statewide assessing and collecting levy.

Sen. Chris Buttars discussed a bill file that he has opened that would provide a safe harbor from property tax increases for citizens 65 years of age or older. He explained that if a taxpayer who is 65 years of age

or older is unable to pay the taxpayer's property taxes that amount would be deferred until the home is sold.

Rep. Snow commented that this proposal might harm a taxing entity with a substantial number of taxpayers who elect to defer their property tax liability. The property tax burden would then be shifted to other taxpayers. Sen. Buttaris replied that eligibility for the deferral needs to be carefully defined.

Sen. Stephenson said that the private sector might be able to fund and operate a property tax deferral program.

Rep. Sheryl Allen asked the Committee to study the definition of "household income" under the circuit breaker program. She said that the current definition of household income includes the incomes of all persons in a household. She commented that this definition may disqualify an elderly person who would otherwise qualify for relief if, for example, the elderly person's adult children move back home.

Rep. Froerer said that he is concerned with both policy and procedural issues associated with the property tax. He asked whether, based on the current residential real estate market, it remains appropriate to use fair market value as the basis for taxing property. He said that the Utah Constitution may require an amendment to use some other basis. He explained that he has requested that legislation be drafted to address the following property tax issues: (1) establishing a property tax deferral program for senior citizens; (2) increasing the circuit breaker credit amounts and income eligibility qualifications; (3) considering alternative funding sources for school districts; and (4) providing that the constitutional residential exemption may be granted for lot sizes in excess of one acre when local zoning ordinances require larger lot sizes.

Rep. Frank said that he will be sponsoring legislation to establish a more transparent and straightforward method to determine the taxable value of real property.

Sen. Dennis Stowell distributed and discussed "Utah Constitution - Property Tax Requirements." He explained that the Utah real estate market has been volatile and recommended stabilizing assessed values. He proposed defining actual fair market value as a five-year rolling average of the annual comparable sales values as determined by the county assessor.

Mr. Kris Poulsen, Utah County Assessor, showed examples of how Sen. Stowell's proposed definition would work and what the effects could be.

Sen. Niederhauser said that he will be sponsoring legislation to require voter approval for an increase in the certified property tax rate.

Mr. Bert Hulet, private citizen, suggested that fair market value be determined by using original construction cost or an average of a five-year assessment adjusted by the cost of living.

Mr. Thomas Rogers, private citizen, related an experience regarding an acquaintance's property tax liability. His acquaintance had recently experienced a very high increase in property tax liability from \$700 to \$21,500 in one year. Mr. Kris Poulsen, Utah County Assessor, explained that this assessment was due to an error in this assessment notice and that the error had been corrected.

Mr. Ron Mortensen, private citizen, reviewed the following recommendations with the Committee: (1) require all truth in taxation hearings to be held at the same time and at the same location so that citizens can determine the total amount of all property tax increases; (2) improve accountability for property tax assessments; (3) oppose property tax deferrals that are treated as a reverse mortgage; and (4) require that when a proposal to increase property taxes is placed before voters it should require a double majority to pass, which means a majority of registered voters must vote and a majority of those votes must approve the property tax increase.

3. Statewide Uniform Sales and Use Tax Rate

Rep. Harper distributed and discussed "Proposal for a Uniform Statewide Sales and Use Tax" and "State of Utah - Selected Counties: Possible Combined State and Local Sales and Use Tax Rates." He said that under his proposal the combined state and local sales and use tax rate for food items would remain at 3 percent and nonfood items would be 6.8 percent.

Mr. Jim Olsen, representing the Utah Food Industry Association and the Utah Retail Merchants Association, said he supports the concept because it simplifies tax collection for the state, evens the playing field among businesses, and stops businesses from shopping for the best tax rate.

Mr. Tew voiced concerns with a statewide uniform sales and use tax rate and a mandated property tax reduction being traded for sales and use tax increases that are targeted for specific uses.

4. Other Items / Adjourn

MOTION: Sen. Goodfellow moved to adjourn the meeting. The motion passed unanimously with Rep. Cosgrove, Rep. Frank, Rep. Froerer, Rep. Moss, Rep. Snow, and Rep. Urquhart absent for the vote.

Chair Dougall adjourned the meeting at 4:52 p.m.