

**MINUTES OF THE
REVENUE AND TAXATION INTERIM COMMITTEE**
Wednesday, June 18, 2008 – 9:00 a.m. – Room C445 State Capitol

Members Present:

Sen. Wayne L. Niederhauser, Senate Chair
Rep. John Dougall, House Chair
Sen. Curtis S. Bramble
Sen. Mike Dmitrich
Sen. Brent H. Goodfellow
Sen. Howard A. Stephenson
Pres. John L. Valentine
Rep. Douglas C. Aagard
Rep. Rebecca Chavez-Houck
Rep. Tim M. Cosgrove
Rep. Julie Fisher
Rep. Craig A. Frank
Rep. Gage Froerer

Rep. Wayne A. Harper
Rep. Fred R. Hunsaker
Rep. Rosalind J. McGee
Rep. Carol Spackman Moss
Rep. Merlynn T. Newbold
Rep. Paul Ray
Rep. Aaron Tilton

Staff Present:

Mr. Phillip V. Dean, Policy 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 9:04 a.m.

MOTION: Rep. Ray moved to approve the minutes of the June 5, 2008 meeting. The motion passed unanimously with Sen. Bramble, Sen. Goodfellow, Pres. Valentine, and Rep. Tilton absent for the vote.

2. Property Tax Study -- California's Proposition 13

Mr. Jonathan Coupal, President, Howard Jarvis Taxpayers Association, addressed the Committee regarding California's Proposition 13. He said Proposition 13 provides tax certainty to property owners and noted it is similar to a hybrid sales tax because of the voluntary decision to purchase a home. He stated that most tax systems created by government officials are very volatile. However, Proposition 13, which was created by citizens, has resulted in a very stable source of property tax revenue for California. He suggested that Utah consider adopting a property tax system similar to California's, but also cautioned that not all of Proposition 13's provisions may be appropriate here.

Mr. Coupal also explained that it was difficult for retired couples to afford to downsize their homes after the implementation of Proposition 13, so additional initiatives were created where retirees may transfer a portion of their current property tax base amount with them when they sell their home. He also said that Proposition 13 has eliminated corrupt practices by some tax officials because it removes any incentive to falsely adjust market values. Mr. Coupal explained that there is a one percent cap on the tax rate and increases are limited to no more than two percent each year.

Mr. Coupal also said that most first time home owners in California support Proposition 13 because they are buying into a system that provides tax certainty and stability. He discussed user fees and explained that only individuals who bought property in the last three years would be negatively affected by a drop in market values. He noted that California had nothing in place to slow the growth of property tax increases before Proposition 13 was enacted.

Mr. Coupal also said that he believes developer fees would have risen in California regardless of whether Proposition 13 was implemented. He noted that Proposition 13 applies to all properties, including second residences and businesses. Mr. Coupal also noted that he believes acquisition based taxable values are superior to fair market value systems.

Sen. Niederhauser asked how Proposition 13 has affected housing mobility. Mr. Coupal replied that there are some retired homeowners who may be disinclined to move due to the likely change in property tax liability. However, as mentioned earlier, some homeowners may retain a certain portion of their property tax base amount when they sell and move to a new location.

Rep. Harper asked Mr. Coupal if he had any advice for the Committee as it considers changes to Utah's property tax system. Mr. Coupal replied that the Committee should consider the fundamental role of the property tax as a source of revenue for local government. There might be better alternatives to the property tax as a way to fund local government services.

Rep. Moss asked about the effects of Proposition 13 on public education funding. Mr. Coupal said that the public education system in California is dysfunctional but not due to a lack of money. He said that inflation adjusted per pupil expenditures are 30 percent higher now than when Proposition 13 was enacted. He said that funding of public education in California is centralized at the state level due to court rulings.

Rep. McGee noted that she would like to know the comparison between California and Utah's average family size and dependency ratios.

Ms. Deborah Herbert, Utah County citizen, said that according to her research, no two homes are assessed at the same value in the City of Mapleton. She said her property taxes quadrupled last year, while her neighbors' property taxes have decreased. She said the only recourse available to homeowners is to do their own research and appeal the assessed value of their homes.

Mr. Jim Brey, Washington County citizen, asked the Committee if California's Proposition 13 is a regressive or progressive tax. Mr. Coupal replied that even the harshest critics of California's Proposition 13 admit it is a progressive tax and that the tax burden does not primarily fall on middle and low income citizens.

Sen. Stephenson requested that staff contact the Utah County Assessor for additional information regarding Ms. Herbert's comments.

Ms. Allison Rowland, Voices for Utah Children, said that it makes sense to her that new home buyers would be in favor of California's Proposition 13. However, there is still a problem with citizens being priced out of buying homes in California. She explained that the homeownership rate in California is 58 percent and 72 percent in Utah. She noted that renters pay property taxes and that renters may be paying the revenue difference in place of homeowners who benefit from lower taxes.

Mr. Ron Mortensen, citizensfortaxfairness.org, said that the property tax system is the most important issue for Davis County citizens. He said people are afraid of losing their homes and stated that the current property tax system is flawed. He said when citizens have called their local governments for answers, they are getting the impression that they are supposed to move out of the area if they can't afford

to live there. He encouraged the Committee to find a way to allow for predictability in the property tax system.

Mr. Randy Herbert, Utah County citizen, said that he consciously moved to the City of Mapleton because the property tax rate was low. He said that 18 months later, he can no longer afford to live there because tax rates have increased so rapidly. He spoke in favor of acquisition based taxable values and suggested that the state consider taxing food rather than property.

Mr. Coupal noted that he attributes the lower homeownership rates in California to the hostile environment for new housing development.

Sen. Stephenson suggested that he would like to see an automatic adjustment in assessed value for neighborhoods where one property owner successfully reduces the assessed value on that owner's property. He said he would prefer that the entire neighborhood receive an adjusted value, rather than just one property owner.

3. Property Tax Study -- Acquisition Value-Based Property Assessment Policy and Periodic Assessment of Residential Property

Dr. John Merrifield, University of Texas at San Antonio, spoke to the Committee about acquisition value-based property assessment and periodic assessment of residential property. He referred to the document "Residential Property Taxation: Is Periodic Reassessment Worth It," which was included in the mailing packet. He urged the Committee to consider the two components of California's Proposition 13 individually. He noted that there are already many subsidies available to first-time home buyers and that there are always advantages and disadvantages for frequent movers. He supported the idea of Utah adopting an acquisition value-based property assessment system along with some type of annual indexing. He noted that a transfer of ownership through a trust would not trigger a reassessment under an acquisition value-based system.

Mr. Coupal noted that children can take possession of their parents' home when they pass away because of a generational exception in Proposition 13.

Mr. Robert Franson, citizen, said that he believes his property taxes are too high, and that he supports the comments of Mr. Coupal and Dr. Merrifield. He noted he would like to be able to predict his property taxes each year.

Mr. Art Partridge, Washington County Assessor, said that taxes in Washington County are four-tenths of one percent, which is approximately \$400 for every \$100,000 of property value. He noted that in California and Texas, those numbers are approximately \$2,000 to \$3,000 for every \$100,000 of property value, respectively. He said Utah would need to adopt a real estate price disclosure law before it could have an acquisition value-based property tax system.

Mr. Brey asked Dr. Merrifield if there was any research available on the comparison between the accuracy of acquisition value-based assessments versus fair market value assessments. Dr. Merrifield replied that he was not aware of anyone who has published that information.

Mr. Mortensen said that while Utah may have a relatively low property tax burden, its overall tax burden is 8th highest in the nation. He noted that Texas may have higher property taxes, but it does not have an income tax.

Mr. Lee Gardner, Salt Lake County Assessor, noted that there is no perfect system for determining property taxes. He said the question to answer is how to fairly distribute the cost of government.

4. Truth in Taxation Ad - City of South Jordan

Sen. Niederhauser distributed and discussed "Truth in Taxation Notice from the Tooele County Board of Education."

Rep. Dougall distributed a letter from the City of South Jordan regarding a truth in taxation advertisement posted by the city. He noted that officials from the city were not able to attend the meeting.

Mr. David Spatafore, representing the City of South Jordan, discussed the letter from the City of South Jordan.

5. Other Items / Adjourn

MOTION: Rep. Frank moved to adjourn the meeting. The motion passed unanimously with Sen. Bramble, Sen. Goodfellow, Pres. Valentine, and Rep. Tilton absent for the vote.

Chair Dougall adjourned the meeting at 11:58 a.m.