

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

Wednesday, October 15, 2008 – 9:00 a.m. – Room C445 State Capitol

Members Present:

Sen. Wayne L. Niederhauser, Senate Chair
Rep. John Dougall, House Chair
Sen. Mike Dmitrich
Sen. Brent H. Goodfellow
Sen. Howard A. Stephenson
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. Paul Ray
Rep. Aaron Tilton

Members Absent:

Sen. Curtis S. Bramble
Pres. John L. Valentine
Rep. Douglas C. Aagard
Rep. Carol Spackman Moss
Rep. Merlynn T. Newbold

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.leg.utah.gov.

1. Committee Business

Chair Niederhauser called the meeting to order at 9:13 a.m. He excused Rep. Aagard, Rep. Moss, and Rep. Newbold from the meeting.

MOTION: Rep. Fisher moved to change "Rep. Newbold" to "Rep. Fisher" on the second page, eighth paragraph down in the September 24, 2008 minutes and to approve the minutes of the September 17, 2008 meeting and the amended minutes of the September 24, 2008 meeting. The motion passed unanimously with Sen. Dmitrich, Sen. Niederhauser, Rep. Chavez-Houck, Rep. Froerer, and Rep. Harper absent for the vote.

2. Property Tax Study -- Committee Discussion and Direction for Future Action

Chair Niederhauser introduced this item. He explained that the state's current property tax system, based on fair market value, does not provide the desired level of tax certainty for all taxpayers. He said that recent large increases in assessed value for some taxpayers points to the difficulty that some county assessors have in achieving and maintaining uniformity in fair market value. Sen. Niederhauser also said that the property tax burden is often shifted between taxpayers due to truth in taxation.

Rep. Froerer spoke in favor of an indexed fair market value system without full disclosure of sales price. He suggested that some type of index for housing values could easily be developed and that adopting a uniform indexing approach would improve the fairness of the property tax system because all property would increase in value at the same rate. He said that a modified acquisition value based system should be the preferred option because it will average out most increases and decreases over time.

Rep. Hunsaker noted that improvements to the current fair market value based system would not require a constitutional amendment but an acquisition value based system would.

Rep. Froerer suggested that under an acquisition value based system, the county assessor would determine the fair market value at the time of sale.

Rep. Hunsaker said he believes an acquisition value based system is unfair for individuals buying a new home or individuals who are required to frequently change homes due to employment changes.

Sen. Niederhauser remarked that a tax shift will take place no matter which property tax system is used and that it is the duty of the Committee to ensure that those shifts are proper, fair, and good tax policy.

Rep. Hunsaker replied that all taxpayers want tax predictability and, though it may be elusive, tax transparency as well. He noted that any time there is a system that favors one segment of society over another, all fairness is lost. He said he believes that under an acquisition value based system individuals who buy a new home are receiving a disproportionate amount of tax burden.

Rep. Harper said that the Committee wants to provide tax certainty, reliability, and transparency to all taxpayers.

Ms. Kathleen Howell, Cache County Assessor, answered committee questions about the proposal suggested by Mr. Art Partridge, Washington County Assessor, at the previous meeting. She noted that county assessors are working hard to implement 2008 General Session H.B. 54, "Property Tax Assessment Revisions." Ms. Howell also stated that the Utah Tax Review Commission has not reviewed this proposal for modified acquisition value.

Rep. Froerer spoke in opposition to full disclosure laws. He agreed that the current system is not perfect, but that the burden of proof to determine fair market value should be on the government, not the taxpayer.

Ms. Howell agreed that the current system is not perfect, but that the ultimate goal of all county assessors is to assess all property at fair market value. She cautioned the Committee to move slowly and make sure the best system possible for taxpayers is implemented.

Rep. Fisher asked what would happen if the Legislature were to take no action at this time. Ms. Howell replied that recent legislative scrutiny has emphasized the need to keep all property at fair market value. She also said that homeowners are very anxious because of the volatility in the housing market.

Rep. Dougall said that using some type of inflation index would still result in property being assessed near fair market value over the long term and would eliminate any disparity between new and existing homes.

Rep. Harper said that another option would be to replace the property tax with some type of consumption tax. This could be done in several ways, including replacing school property taxes with a state sales and use tax.

Mr. Roger Tew, Utah League of Cities and Towns (League), said the League would like to respond in detail to this agenda item at a later time.

Mr. Robert Frandson, private citizen, Davis County, said he believes taxes are currently too high, government is too big, and the current property tax system is fundamentally flawed.

Mr. Jim Bray, Fair Property Tax Committee in Washington County, spoke in favor of an acquisition value based property tax system with an annual index for growth. He said that the current system is unfair.

Ms. Allison Rowland, Voices for Utah Children, noted that the entire state property tax system should not be changed because of a few isolated occurrences. She said that taxpayers already generally pay a similar amount of property tax each year. She also spoke in favor of making the circuit breaker program available to individuals under the age of 65.

Sen. Stephenson requested information on what the fiscal note would be if the circuit breaker program were expanded to include all individuals, regardless of age.

Ms. Oakes answered committee questions about abatement and deferral programs.

Mr. Larry Richardson, Salt Lake County Treasurer, explained that Salt Lake County provides nearly \$6 million each year in property tax relief, abatements, and deferrals.

Mr. Lee Gardner, Salt Lake County Assessor, answered committee questions regarding increases in property values and taxes in past years and property tax appeals.

Chair Niederhauser turned the chair to Rep. Dougall.

3. Administration of the Property Tax Valuation Agency Fund and Funding of County Assessor Offices

Mr. Gardner distributed and discussed "Salt Lake County 2008." He said this information could be used to determine if it is appropriate for Salt Lake County and other counties to contribute funds for other counties to use. Mr. Gardner said that information regarding his budget that was presented at the previous meeting was not accurate. He expressed thanks to the Salt Lake County Council for its support in funding needed improvements to the property tax system in his county.

Sen. Niederhauser directed staff to obtain similar information from each county and compile it in a similar format.

Mr. Arie Van De Graaff, Utah Association of Counties, introduced Mr. Michael Jensen, Salt Lake County Council, Mr. Ralph Okerlund, Sevier County Commission, and Mr. Steve White, Utah County Commission.

Mr. Jensen discussed the budget process of Salt Lake County. He explained that some capital expenditure funds have been used to fund a new property tax management information system in his county.

Mr. Okerlund explained that Sevier County receives assessing and collecting monies from other counties and noted that it is important for those funds to be spent wisely.

Mr. White noted that Utah County has increased the budget for the county assessor's office to comply with the Legislature's mandate to assess every property at fair market value.

4. Property Tax Study -- Changes in Assessed Valuations and Tax Liability

Mr. Dean discussed "Changes in Assessed Valuations and Tax Amounts." He also distributed and discussed "Sample Parcel-Level Changes in Assessed Fair Market Value in Selected Counties." He provided a brief overview of the current constitutional and statutory requirements for fair market value. He also reviewed some of the consequences to the statewide equity of the minimum school program if all property statewide is not accurately assessed at fair market value.

Mr. Dean reviewed the trends in new growth and reappraisals. Rep. Dougall asked if the stratification of some data points was due to factoring. Mr. Dean replied that this is the likely answer, although not all property shows a uniform increase so other factors may also cause an increase, including an increase in tax rates.

Sen. Niederhauser asked if long-term data were available to analyze the effects over time of both an acquisition based value system and the proposal presented by Mr. Partridge. Mr. Dean agreed that it is important to analyze the effects over a longer period of time. However, not all counties have long-term data that is readily available. He said that he would attempt to gather what long-term data is available.

5. Payments in Lieu of Taxes for Cities and Towns

Sen. Davis introduced this item.

Ms. Oakes distributed and discussed "Table 4-2 Methods Used by the States to Compensate Local Governments for Tax Base Reductions Due to State Ownership of Land."

Mr. Robert Gray, Mayor, South Salt Lake City, distributed and discussed "Tax Exempt Properties in South Salt Lake City" and "Grants in Lieu of Taxes." He explained that the city had to raise property taxes by 138 percent to remain solvent and that almost 43 percent of the land in the city is tax exempt. He explained that the solution to the problem is for certain states and the federal government to reimburse local governments a percentage of property tax revenues lost due to tax exempt properties.

Rep. Frank requested a list of cities in Utah that are impacted by tax exempt property.

Mr. Lincoln Shurtz, Utah League of Cities and Towns, explained that the proposed threshold was suggested because every city and town is affected by tax exempt property.

MOTION: Sen. Goodfellow moved to have Sen. Davis bring this item back to the Committee for further discussion with draft proposals for narrow and broad spectrums to solve payments in lieu of taxes. The motion passed unanimously with Sen. Dmitrich, Sen. Niederhauser, Rep. Chavez-Houck, Rep. Froerer, and Rep. Harper absent for the vote.

6. Truth in Taxation Newspaper Advertisement Requirements

Due to lack of time this item was not discussed.

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7. Other Items / Adjourn

MOTION: Rep. Frank moved to adjourn the meeting. The motion passed unanimously Sen. Dmitrich, Sen. Niederhauser, Rep. Chavez-Houck, Rep. Froerer, and Rep. Harper absent for the vote.

Chair Dougall adjourned the meeting at 12:21 p.m.