



The Utah Taxpayer

A Publication of the Utah Taxpayers Association

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November 2007 Articles

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Utah Property Tax Revenues Increase 10.4% in 2007

Total property tax collections in Utah – including age-based vehicle fee-in-lieu (FIL) – will approach \$2.3 billion in 2007, according to calculations by the Utah Taxpayers Association based on data from the Utah State Tax Commission. Property taxes will increase 10.4%.

Each year in November, your Taxpayers Association estimates property tax revenues for the current year based on raw data from the Tax Commission. The official Tax Commission report is not released until late summer the following year. In previous years, the association November estimate for real and personal property is typically within 0.5% of the Tax Commission’s official value released in the following year.

The following table summarizes anticipated property tax revenues for 2007 and actual property taxes for 2006.

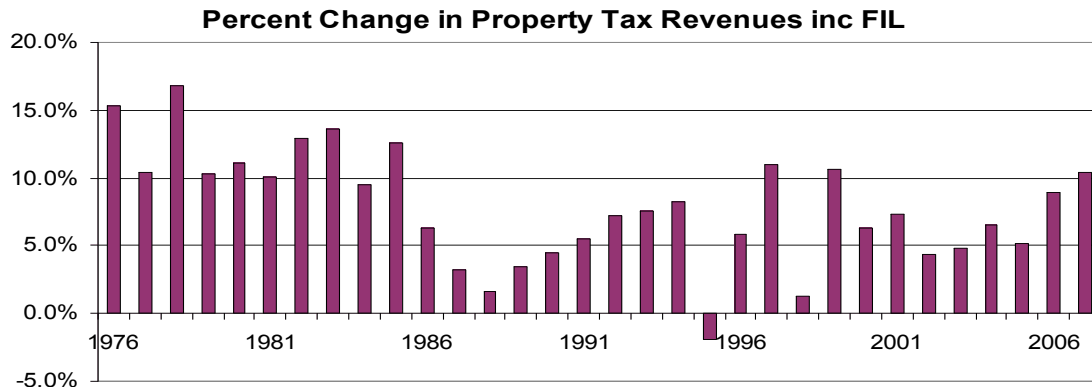
Property Taxes: 2007 Estimates and 2006 Actuals

	2006	2007	% Change
Total Property Taxes	\$2.06 billion	\$2.27 billion	10.4%
Total excl FIL	\$1.85 billion	\$2.05 billion	10.8%
Taxable Valuation excl FIL*	\$154.66 billion	\$190.03 billion	22.9%
Effective Tax Rate excl FIL*	1.19%	1.08%	-9.8%

*Source: Values for 2007 are estimates by the Utah Taxpayers Association. Values for 2006 are Tax Commission actuals. *FIL: age based vehicle fee-in-lieu*

2007 Increase is higher than normal

The following chart shows annual property tax revenue growth including FIL since 1976. Since the enactment of Truth-in-Taxation (TNT) in the mid-1980s, property tax revenues have increased by about 6% annually. This year is only the third time since TNT’s enactment that property tax revenues will increase at double-digit rates.



Calculations by Utah Taxpayers Association based on Tax Commission data

Annual Meeting Set

The Annual membership meeting of The Utah Taxpayers Association will be held **Friday November 16, 2:00 p.m. in the offices of Holme Roberts & Owen**
299 S Main Street Suite 1800

The Agenda includes a review of the Association’s 2007 accomplishments and election of directors. Nominations from membership should be received five days prior to meeting.

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How can property taxes increase so much when local governments don't get automatic inflationary increases?

Under TNT, property tax rates are reduced as valuations of existing properties increase. This reduced rate – called the certified tax rate (CTR) – is then applied to all properties, including new growth.

However, under certain conditions, property tax revenues can increase much faster than combined inflation and population growth.

1. Local governments adopt a tax rate that is higher than the certified tax rate. If no local governments had exceeded the certified tax rate in 2007, property tax revenues (excluding FIL) would have increased by 6.4% instead of 10.8%.
2. Local governments issue bonds, which are exempt from CTR calculations. In some cases, local governments – particularly school districts -- issue bonds that were approved by voters up to ten years previously.
2. Property valuations increase rapidly. Even though increased valuations of existing properties do not create additional revenues for local governments, rapid increases in “new growth” valuations can substantially increase tax revenues.

Effective Tax Rates and Taxes Charged by Local Governments

School districts continue to increase their share of total property taxes. In 2007, school districts will receive 56.2% of all property taxes, up from 50% ten years ago and higher than any year since the early 1980s.

Entity	Effective Tax Rate	Revenues	% Increase	% of Total
School Districts	0.006051	1,277,655,810	13.2%	56.2%
Counties	0.001926	406,622,279	8.2%	17.9%
Cities/Towns	0.002037	332,685,876	4.6%	14.6%
Special Districts	0.000326	255,548,452	8.2%	11.2%
Statewide	0.010763	2,272,512,417	10.4%	100.0%

Calculations by Utah Taxpayers Association based on Tax Commission data

1. Effective tax rate (ETR) is for real and personal property. FIL is excluded.

2. Revenues and percent increase include FIL

3. ETRs for school districts, counties, cities, and special service districts add to less than the total statewide

ETR since special service districts have overlapping tax bases and since cities' tax base does not cover entire state.

Value of Primary Residence Exemption (2006)

Primary residences in Utah receive a 45% exemption on property taxes.

The value of the 45% exemption can be calculated two different ways. First, if the exemption were removed and certified tax rates were not reduced, yielding a revenue windfall for local governments, then the value of the 45% exemption would be \$775 million annually. Second, if the exemption were removed and certified tax rates were reduced to maintain revenue neutrality, then the value of the 45% exemption would be \$238 million.

Does Truth-in-Taxation unnecessarily restrict property tax revenue growth?

Over the years, opponents of TNT have argued that TNT does not allow property tax revenues to grow fast enough, although they won't be making that argument too loudly this year due to revenue increases of 10.4%.

TNT opponents argue that property tax revenues as a percent of total personal income have decreased since TNT's enactment. However, most or all of this decrease is attributable to property tax reductions unrelated to TNT. During the 1990s, the Legislature reduced the statewide basic levy for education twice, and also allowed counties to impose a sales tax in return for reducing property taxes.

Analyzing city property tax revenues as a percent of personal income is a reliable method for determining the impact of TNT on property tax revenues since the Legislature has not enacted any bills in recent years that have impacted city property tax collections. As the following graph shows, city property tax revenues as a percent of total personal income have been very stable since 1985.

If no local governments had exceeded the certified tax rate in 2007, property tax revenues (excluding FIL) would have increased by 6.4% instead of 10.8%.

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Quote of the Month #1

"It would have remained the same," said West Valley City Mayor Dennis Nordfelt, president of the Council of Governments. "There was a high understanding on our part that the rail projects needed to receive a good portion of that money."

In evaluating how the Salt Lake County Council of Governments distributed transportation funds between proposed projects, the State Auditor found that COG's recommendations would allocate the most money to the projects that would save the least lives.

In medicine, such blatant disregard for safety is called malpractice.

SL Tribune 10/16/07

Highest and Lowest Tax Rates

Every year, your Taxpayers Association lists the five highest and five lowest property tax rates for each type of local government. In addition to local government efficiency, other factors impact property tax rates. At the city level, property tax rates are impacted by cities' decisions to impose utility franchise fees. Most urban cities impose this tax, while many rural towns do not. City property taxes are also impacted by city sales tax bases, which explains why so many mayors, council members, and city "economic development" directors like to subsidize retail businesses.

School district property tax rates are impacted by enrollment growth rates and assessed valuation per student. Growing districts, in addition to usually having low assessed valuations per student (except for Washington and Wasatch), typically have high property tax rates to cover construction bonds.

County property tax rates are impacted by county decisions to impose county-option sales taxes. When counties impose the 0.25% sales tax, they must reduce property taxes dollar-for-dollar. Only three counties – Millard, Kane, and Emery – have not imposed the 0.25% sales tax. Millard and Emery have large centrally assessed property taxpayers and would rather tax these taxpayers with property taxes than tax voters with sales taxes. Since Kane already imposes a 1.0% rural hospital sales tax, county officials decided not to raise sales taxes any higher.

The following charts show the five highest and lowest property tax rates.

The Best/Lowest

Schools	Tax Rate	Counties	Tax Rate	Cities (top 30)	Tax Rate
1. Kane	0.003484	1. Summit	0.000846	1. Riverton	0.000237
2. Rich	0.003773	2. Utah	0.001000	2. Bountiful	0.000912
3. Wayne	0.004082	3. Tooele	0.001158	3. Kaysville	0.000925
4. Daggett	0.004091	4. Garfield	0.001234	4. Spanish Fork	0.001144
5. Grand	0.004248	5. Washington	0.001266	5. St. George	0.001217

Statewide Effective Tax Rate

Schools	Tax Rate	Counties	Tax Rate	Cities (top 30)	Tax Rate
Statewide ETR	0.006051	Statewide ETR	0.001926	Statewide ETR	0.002037

The Worst/Highest

Schools	Tax Rate	Counties	Tax Rate	Cities (top 30)	Tax Rate
36. San Juan	0.007739	25. Weber	0.003608	26. Provo	0.002236
37. Nebo	0.008150	26. Millard*	0.003768	27. S. Salt Lake	0.002465
38. Ogden	0.008176	27. Piute	0.004066	28. West Valley	0.003194
39. S. Sanpete	0.008304	28. San Juan	0.004071	29. Ogden	0.003384
40. Tooele	0.008411	29. Emery*	0.004412	30. Salt Lake	0.004040

Source: Tax Commission except for statewide effective tax rate (Utah Taxpayers Association)

*Counties without 0.25% sales tax

County-wide Effective Tax Rates (ETRs)

County-wide effective tax rates are determined by dividing total real and personal property taxes charged by all tax entities within a county – including school districts, cities, special service districts, and the county itself – by the county's total assessed valuation. Valuation-weighted tax rates vary dramatically from county to county for several reasons. Some local governments operate more efficiently than others. Some counties have low or high property tax bases per capita. Local governments with low property (and sales) tax bases, which may be due to low property values and/or low population bases, need to provide the same services as counties with high property tax bases.

The accompanying chart on the following page shows effective tax rates for all twenty nine counties, with counties listed in ascending order based on ETR.

Rich County has the state's lowest county-wide effective tax rate but has the state's 4th highest property tax burden per capita. Wayne County has the state's 2nd lowest ETR and also has the 27th highest property tax burden per capita. Along the Wasatch Front, Utah County has the lowest ETR and the lowest property tax burden per capita.

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My Corner - by Howard Stephenson

Time For Spending Transparency in Utah

If citizens could have Web access to state budget information, would they actually use it? The answer to that question in Missouri is a resounding, "Yes!" According to *Budget & Tax News* <http://www.heartland.org/Article.cfm?artId=22128>, on September 4, the one-millionth online search occurred at the Missouri Accountability Portal <http://mapyourtaxes.mo.gov/MAP/Portal/Default.aspx>, or MAP, a Web site

created just a few weeks earlier on order of Gov. Matt Blunt (R). The MAP allows online visitors to search state budget information both by broad categories and by specific businesses and individuals and is set to include additional information such as state employee salaries by January.

Blunt issued an executive order in July to create the Web portal--using existing revenues--thus heeding a call for greater transparency that has been resonating across the country since passage of the Federal Funding Accountability and Transparency Act of 2006. That Act creates a free, publicly searchable Web site for nearly all federal contracts and grants.

Now, the Utah Legislature will be considering legislation to empower citizens to see what their government is doing with their money. On November 14, Senator Wayne Niederhauser will present to the Interim Revenue and Taxation committee a proposal similar to Missouri's MAP, which would require school districts, state agencies and the Utah Transit Authority to publish every one of their checks in a searchable, online database.

"Government must be accountable to the people," said Sen. Wayne Niederhauser. "This proposal will allow us to harness the power of technology, and let everyday taxpayers see where their hard-earned tax dollars are going."

Five States Pass Transparency

Five states--Hawaii, Kansas, Minnesota, Oklahoma, and Texas--passed legislation this year mandating the creation of searchable Web sites offering comprehensive information on government expenditures. Taxpayers in those states, to varying degrees, will be able to track government spending, according to *Budget and Tax News*.

NCSL Devotes Session, ALEC Drafts Model

The issue of fiscal transparency has garnered so much attention that the National Conference of State Legislatures (NCSL <http://www.ncsl.org/>) dedicated a separate panel discussion to state efforts in this area at the organization's annual conference in August in Boston, and the American Legislative Exchange Council (ALEC <http://www.alec.org/>) offers model language.

Utah Should Switch to a Defined Contribution Retirement System

It's past time the Utah Legislature switched its defined benefit (DB) retirement plans to a defined contribution (DC) system, according to State Representative John Dougall. "The positive benefits of such a change would be significant for both state employees and the taxpayers who employ them, while enhancing the professionalism of state workers," Dougall says.

The current defined benefit plan provides that the State of Utah guarantee a certain retirement income for each retired employee -- usually a percent of final years' salary -- and guarantees inflationary adjustments throughout retirement for the employee and spouse. This puts taxpayers at risk in case of economic downturns when contributions to the system must be increased to keep the system actuarially sound.

A defined benefit plan becomes a sort of "golden handcuff" to entice workers to keep their employment with the state until retirement. It induces career



Sen. Wayne Niederhauser

County-wide Effective and Taxes Per Capita

County	ETR	Taxes Per Capita	Rank (Per Capita)
Rich	0.55%	1,689	4
Wayne	0.64%	496	27
Kane	0.70%	1,585	5
Daggett	0.76%	1,718	3
Grand	0.78%	861	14
Summit	0.80%	2,964	1
Morgan	0.83%	706	18
Iron	0.86%	796	17
Garfield	0.87%	886	13
Washington	0.89%	849	16
Wasatch	0.93%	1,557	6
Uintah	0.95%	1,159	8
Carbon	0.98%	1,071	9
Utah	0.99%	542	24
Beaver	1.01%	850	15
Millard	1.02%	1,420	7
Piute	1.04%	537	26
Cache	1.05%	455	28
Box Elder	1.06%	598	22
Sevier	1.09%	541	25
Tooele	1.14%	548	23
Salt Lake	1.16%	887	12
Emery	1.19%	1,804	2
Sanpete	1.20%	440	29
Duchesne	1.21%	1,000	10
Davis	1.23%	615	21
Juab	1.24%	910	11
Weber	1.35%	667	19
San Juan	1.39%	653	20
Total	1.08%	782	

Calculations by Utah Taxpayers Association based on Tax Commission and GOPB data

On November 14, Senator Wayne Niederhauser will present to the Interim Revenue and Taxation committee a proposal similar to Missouri's MAP, which would require school districts, state agencies and the Utah Transit Authority to publish every one of their checks in a searchable, online database.

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Rep. John Dougall

government employees and punishes the cross-pollination which occurs when workers move in and out of the public and private sectors. A defined benefit plan is not good if we want people to make a contribution in their government job and move on to other opportunities. It potentially results in dead wood hanging on until retirement. It is a holdover of the days when the worker "owed his soul to the company store." Unions tend to like defined benefit plans because they provide stability in union membership and therefore, stability of union dues.

The benefits of a DC plan

A defined contribution plan, on the other hand, provides the employee with true professional portability of his retirement account which follows him to new places of employment. The worker also gets to choose the type of investments his account is held in and can pass the assets to his heirs after he and his spouse are deceased.

The defined contribution plan also ensures that taxpayers can pay their contribution toward employee retirement in the pay period the worker is actually employed rather than 30 or more years later.

In state government there is no greater example of the inmates being in charge of the asylum than in Utah's refusal to move to a defined contribution plan. All kinds of scare stories are drummed up whenever the legislature looks at making the switch. But the biggest enticement for legislators not making the change is a claim that we're currently getting the short-term employees to fund something they won't get.

State Representative John Dougall says all public employees should have the choice of whether they continue with the DB plan or switch to a DC plan, so that they are not forced to stay in a government job their entire career. He's pushing legislation which would give employees a greater choice about all of their benefits, to give them the opportunity to be wise consumers rather than counting on government to be their nanny.

Courts uphold shift to DC plan

The Heartland Institute reports that the Mehlville, Missouri Fire Protection District (MFPD) board of trustees has won a victory for fiscal responsibility when a judge ruled the district may switch employee retirement benefits from a defined benefit to a defined contribution plan.

The August 27 ruling by St. Louis County Circuit Court Judge Thea A. Sherry struck down a lawsuit by the local firefighters union challenging the MFPD's decision to terminate its defined benefit plan and put every employee, current and future, in a defined contribution plan.

It was the first legal challenge of its kind in Missouri. Other entities have made the switch from defined benefit to defined contribution plans for their employees, but none had been challenged in court.

Important Precedent

Aaron Hilmer, a member of the Fire District board, writing in Heartland's November *Budget & Tax News* reports that the ruling sets a precedent for government bodies that hope to reduce pension costs and give employees more control over and flexibility in their retirement programs.

"The court is not persuaded that there was credible evidence that the directors breached their fiduciary duty by modifying the retirement/pension plan under the facts presented to the court," Judge Sherry wrote in her ruling.

"The MFPD board decided to make the change after Bonnie Stegman and I were elected to the three-member commission in 2005," Hilmer said. "We decided to run for the board because of the abuse of taxpayers the prior board had been inflicting. The district's defined pension/disability plan provides an example."

Huge Payouts

Hilmer said MFPD employees were retiring with 100 percent taxpayer-funded lump sum pension payouts in excess of \$750,000. The board also was allowing abuse of the disability plan. One MFPD firefighter received more than \$430,000 in disability payments from the district while employed at another fire district!

All the while, the plans' unfunded liability grew to more than \$5.8 million.

"After ousting two union-backed incumbents, Bonnie and I went to work to reform the pension and disability plan. We hired a disability insurance provider to take over the disability portion, and after two years of union-filed lawsuits against that move, the change became final earlier this year when the Missouri Supreme Court declined to hear the case," Hilmer said.

"We then voted to change the defined benefit pension plan to a defined contribution plan. We did this to bring financial stability to the district and the taxpayers who fund it. Firefighters sued over that change, culminating 17 months later in Judge Sherry's ruling in the board's favor. However, the union could appeal the ruling", Mr. Hilmer wrote.

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since 1922

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Coming Storm

Hilmer says there is no doubt that public pension excesses and underfunding of pensions are the coming storm in state and local government, yet few elected officials are doing anything more than giving lip service to the issue.

“The largest reason is the powerful lobby and political influence of public-sector unions. As union influence in the private sector wanes, public-sector unions are flourishing and using their muscle to elect union-friendly legislators and board members,” Hilmer said.

Utah’s Representative John Dougall knows what he’s up against in seeking to change Utah’s retirement system. Taxpayers should get behind him and help make it happen.

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