OFFICE OF THE
UTAH STATE AUDITOR

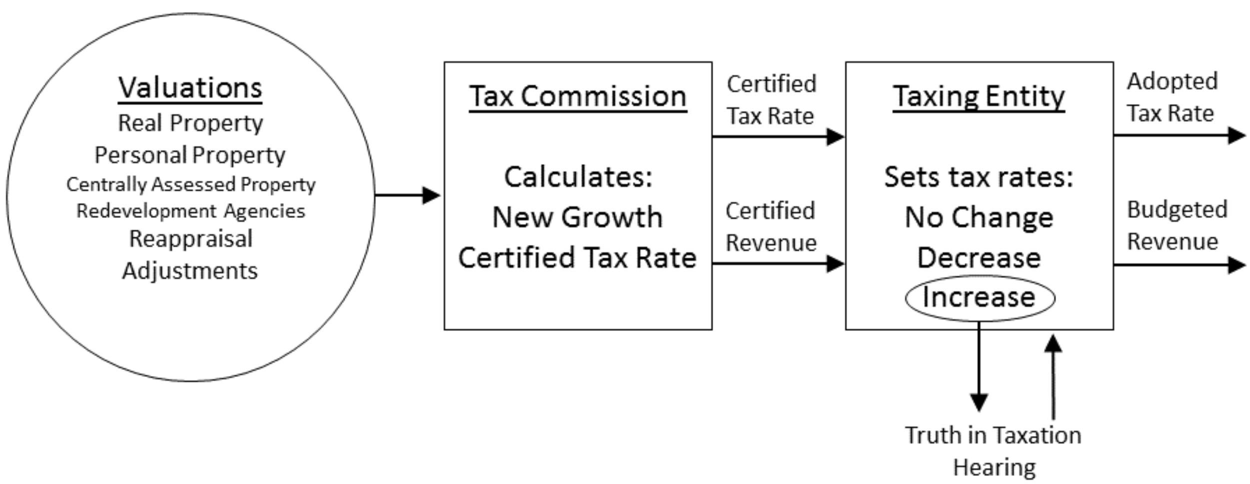
JULY 16, 2014
ANALYSIS BRIEF

Analysis of Utah Property Tax System Shows Significant Calculation Errors Across the State

The Office of the Utah State Auditor (Office) recently completed an analysis of "New Growth Within Utah's Property Tax System". The report identifies issues and mistakes in the current system that have led to the miscalculation of baseline certified property taxes totaling an estimated $100 million statewide since 2006.

Utah's property tax system sets default tax rates to generate the same amount of property tax revenue for a government in a given year as was collected in the prior year for existing property. This process is commonly known as "Truth in Taxation." When property values increase, property tax rates decline and taxing entities collect the same revenue as the prior year using "the certified tax rate."

New growth, commonly understood as the value of newly developed property, does not impact the calculation of the certified tax rate, but it is taxed using the same rate to compensate for the demands of newly developed properties. New growth is currently calculated as the value of new real property plus any change, positive or negative, in the value of personal and centrally assessed property excluding the value of redevelopment projects. The Tax Commission values all mines, utilities, airlines, and railroads as centrally assessed property and then apportions a value to each county based on the location of the property. Taxing entities evaluate certified tax rates and adopt a tax rate for the amount of revenue they plan in a budget. The figure below illustrates the process of calculating and implementing property tax rates in Utah



Unfortunately, under this process, the current definition of new growth is ambiguous in both statute and in practice and there are differences between statute and administrative rule. In addition, neither administrative rule nor Tax Commission process defines how to properly calculate the value of reappraisal in the calculation of new growth, leading to errors in double counting the reappraisal value for redevelopment projects.

Utah State Capitol Complex, East Office Building, Suite E310 • Salt Lake City, Utah 84114-2310 • Tel: (801) 538-1025 • Fax: (801) 538-1383

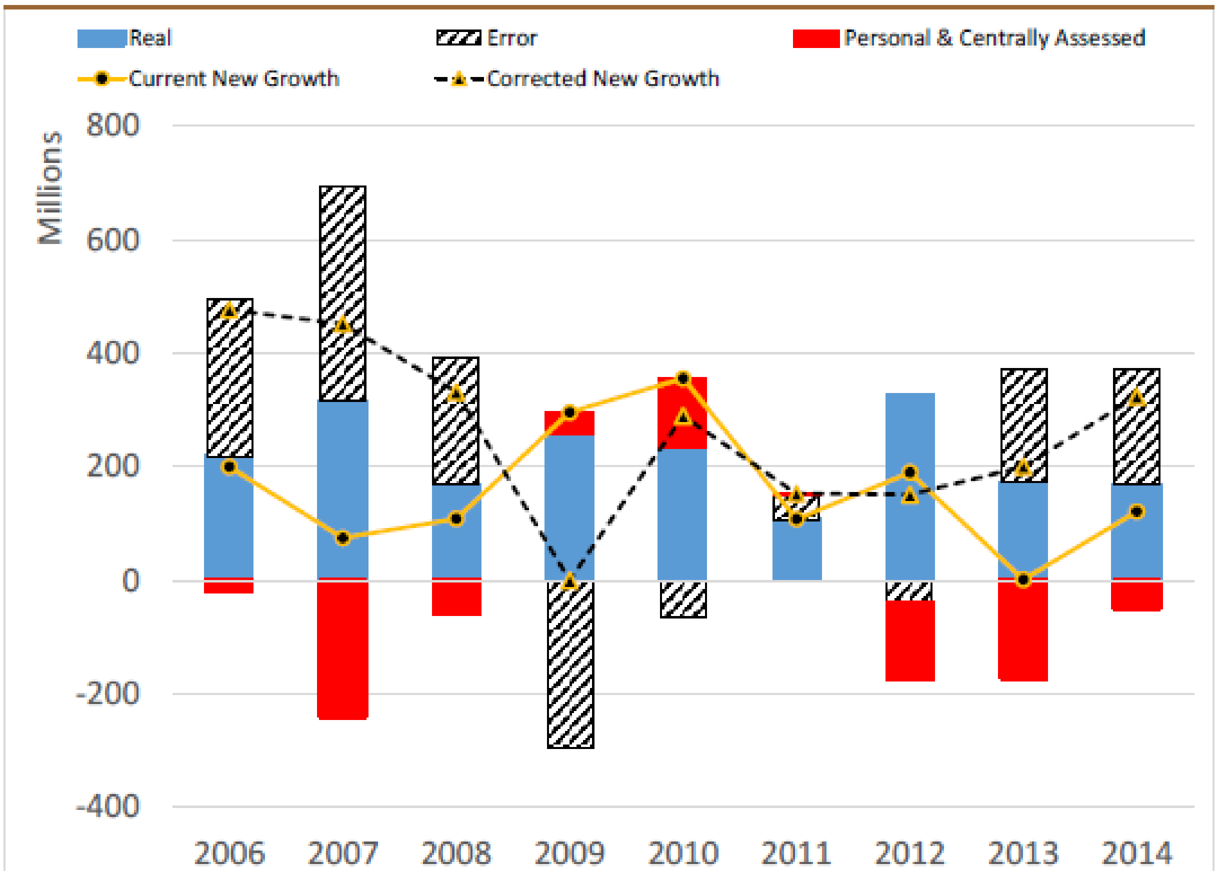
Figure 11 - Calculation of New Growth

Salt Lake City 2013 calculation

Element		Current		Corrected
Real:	+	$829,517,691	+	$829,517,691
Personal:	-	$50,469,104	-	$50,469,104
Centrally Assessed:	+	$103,980,682	+	$103,980,682
Redevelopment:	-	$225,757,454	-	$225,757,454
Other:	-	$290,654	-	$290,654
Reappraisal:	-	$655,515,842	-	$456,561,620
New Growth:	+	$1,456,319	+	$200,419,541

The ambiguity and error in the calculation of new growth leads to lower certified tax rates and less certified property tax revenue. The Salt Lake County Assessor provided research documenting the size of the error in reappraisal from 2006 through 2013 totaling nearly $1 billion, leading to a cumulative $17.6 million in under-computed certified property tax revenue over the entire period. Figure 11 and Figure 12 from the Report show the impact of these errors for Salt Lake City.

Figure 12 - Error in New Growth in Salt Lake City



The error from subtracting the reappraisal value of redevelopment projects twice is significant, shifting hundreds of millions of dollars from new growth.

Figure 15 - Impact on the Certified Tax Rate

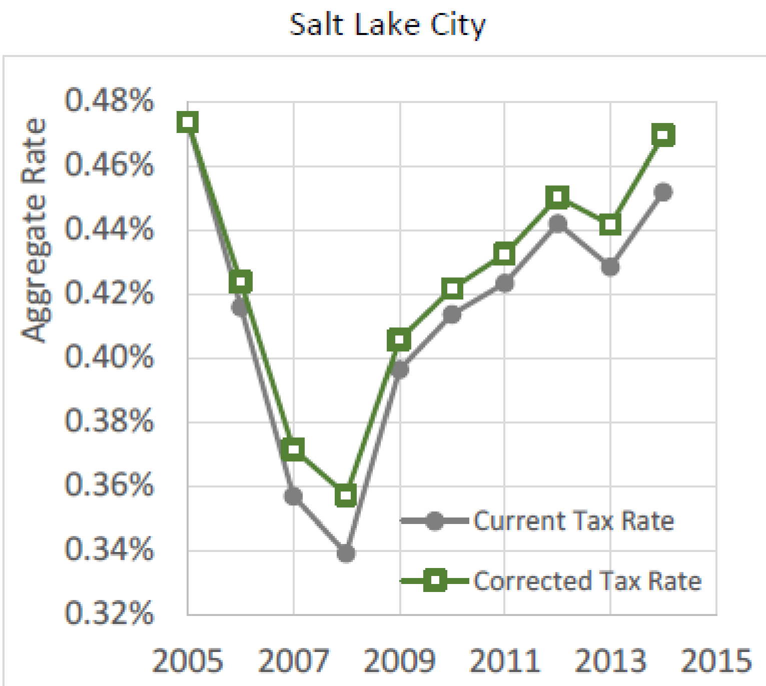


Figure 15 from the Report shows how the reappraisal error impacted Salt Lake City's certified tax rates from 2006 to 2014. The cumulative impact of the error double counting redevelopment project reappraisal results in an artificially lower tax rate. On average, if the reappraisal error was corrected starting in 2005, the certified tax rate would be 0.01% to 0.02% higher.

Figure 17 - Certified Tax Revenue Impacts

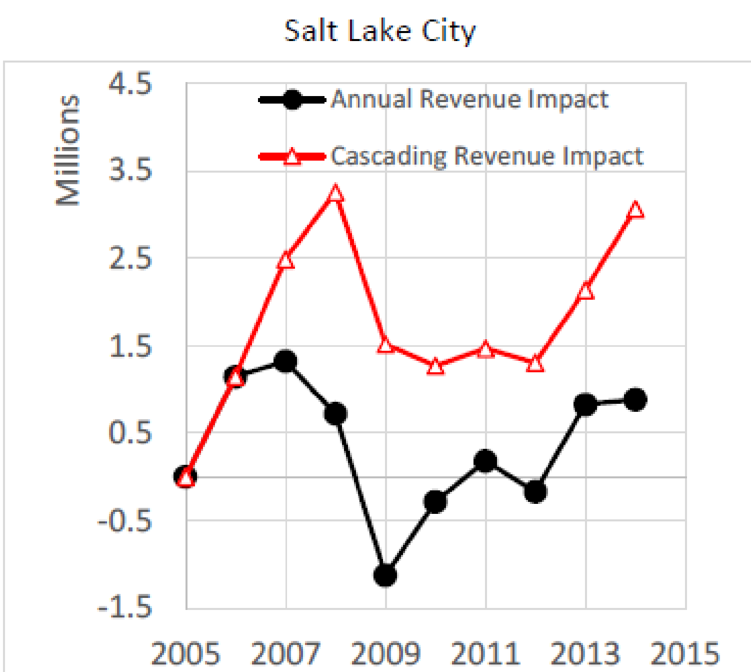


Figure 17 shows the certified tax revenue impact that would result from the changes in these certified tax rates had the reappraisal error been corrected starting in 2005 for Salt Lake City. The error in reappraisal produces in any given year an effect of roughly $1 million in property tax, in five of the years it results in more revenue, in one of the years less revenue, and in three of the years the same revenue. Because any change in value cascades through time, Salt Lake City ongoing certified tax revenue would have been higher in all of the years, from a maximum of $3 million in 2008, $1 million in 2009 through 2012, and recent growth in the revenue impact of $2 million in 2013 and $3 million in 2014.

Extrapolating Statewide, the cumulative reduction of local government certified property tax revenue is likely over $100 million dollars since 2006. In aggregate, local governments also divert hundreds of millions of dollars in property tax to redevelopment projects with little transparency. According to governmental accounting standards, local governments should report all the property tax they levy on their own financial statements and record transfers of property tax increment to redevelopment agencies. Currently, because tax increment is distributed directly to redevelopment agencies, local governments are not properly accounting for these funds on their financial statements. This lack of transparency in financial reporting for redevelopment agencies contributes to the confusion of the impact of new growth on a taxing entity's property tax revenue.

We recommend the following:

1. Clarify Policy Regarding New Growth - The Legislature should provide greater clarity in the formula for the calculation of new growth with one of two options:
   Option 1: Limiting the definition of new growth to the actual value of new real property directly measured by county assessors.
   Option 2: Restricting the contribution of personal and centrally assessed property to actual new growth.
2. Correct the Treatment of Reappraisal - The Tax Commission should implement policies and procedures to eliminate the current practice of subtracting the change in the value of reappraisal for redevelopment projects twice.
3. Improve Redevelopment Project Data Collection - The Utah State Tax Commission should collect more detailed information on the tax bases, tax rates, and tax increments from redevelopment projects to avoid confusion in setting certified tax rates.
4. Properly Report Tax Revenue and Transfers to RDAs - Local governments should properly report in their financial statements all property tax revenue and associated transfers of tax increment to redevelopment agencies.

The full report, "New Growth Within Utah's Property Tax System" issued on July 14, 2014, is available on the Office's website at auditor.utah.gov.

About the Office of the Utah State Auditor

The Office of the Utah State Auditor provides Utah taxpayers and government officials with an independent assessment of financial operation, statutory compliance, and performance management for state and local government.

Specific activities of the Office include performing financial audits, conducting Federal funds compliance audits, providing local government oversight, conducting agency and program performance audits, performing fraud & compliance audits, and operating the State Auditor Hotline for citizens to report suspected financial issues or improprieties. These capabilities strengthen Utah State Government and help taxpayers have confidence in the integrity of Utah's government agencies.

The Utah State Auditor is a Constitutional Officer of the State of Utah, elected directly by the state's citizens every 4 years. The role of the Utah State Auditor is authorized in Article VII, Section 15 of the Utah Constitution.