Property Tax Insights

Newsmaker Breakfast
December 14, 2022
Property Tax

1. Property tax in Utah’s overall revenue system
   - History
   - Contrast with income tax

2. School funding

3. Recent trends
Utah’s Tax System Portfolio Over Time

Source: Utah State Tax Commission
A tax system is like an investment portfolio

What does income tax bring to Utah’s state and local tax portfolio?

- Growth
- Volatility
- Education funding
- Revenue use constraints
- Tax on economic wellbeing as measured by income flow
- Moderate progressivity

**Characteristics of Utah’s Income Tax**

**Annual Return %**

<table>
<thead>
<tr>
<th></th>
<th>Conservative</th>
<th>Balanced</th>
<th>Growth</th>
<th>Aggressivegrowth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average annual return</td>
<td>5.93%</td>
<td>7.99%</td>
<td>9.05%</td>
<td>9.77%</td>
</tr>
<tr>
<td>Worst 12-month return</td>
<td>-17.67%</td>
<td>-40.64%</td>
<td>-52.92%</td>
<td>-60.78%</td>
</tr>
<tr>
<td>Best 12-month return</td>
<td>31.06%</td>
<td>76.57%</td>
<td>109.55%</td>
<td>136.07%</td>
</tr>
<tr>
<td>Worst 20-year return (annualized)</td>
<td>2.9%</td>
<td>3.43%</td>
<td>3.10%</td>
<td>2.66%</td>
</tr>
<tr>
<td>Best 20-year return (annualized)</td>
<td>10.98%</td>
<td>13.84%</td>
<td>15.34%</td>
<td>16.49%</td>
</tr>
<tr>
<td>Historical volatility</td>
<td>4.47%</td>
<td>9.52%</td>
<td>13.02%</td>
<td>15.7%</td>
</tr>
</tbody>
</table>
A tax system is like an **investment portfolio**

What does property tax bring to Utah’s state and local tax portfolio?

- Stable
- Local
- Benefits tax
- Broad base, low rate
- Direct, visible, transparent
- But complex (behind the scenes)
- Tax on asset wealth (certain types)
- Tax on real property economically efficient
Property Tax Utah’s Most Stable Major Tax
Growth in Inflation-Adjusted Revenues, 1972-2022

Source: Utah State Tax Commission & Kem C. Gardner Policy Institute
Property Tax Most Stable Major Tax II

Figure 1: Year-Over Change in Real (Inflation-Adjusted) Tax Revenue per Capita for Major Utah Taxes, FY 1982-2022

Source: Utah State Tax Commission and Kem C. Gardner Policy Institute
How Have Property Taxes Shifted Over Time?

Figure 2: Property Tax Base Composition, 1955-2021

Source: Utah State Tax Commission, Property Tax Division, Annual Statistical Reports
Who Receives Property Taxes?

Figure 3: Property Tax Recipients, 2021

- **School**: 57% ($2.5 Billion)
- **City & Town**: 13% ($0.6 Billion)
- **Limited-purpose**: 12% ($0.5 Billion)
- **County**: 18% ($0.8 Billion)

Note: Includes ad valorem and fee-in-lieu property tax revenue
Source: Utah State Tax Commission
Property Tax at Heart of Utah’s Comparatively Low Per-Student Funding

Figure 5: Total Per Pupil Revenues by Funding Source, 2018

Source: National Center for Education Statistics
School Property Tax Base Highly Unequal Among School Districts

School District Property Tax Base per Student and Discretionary Tax Rates, FY 2020

Massive School Property Tax Base Disparities Influence Tax Rates

Note: Figure 11 is sorted by property tax base per student. Figures 12, 13, and 20 are sorted in the same order to simplify comparison across figures. Discretionary rates exclude the statewide mandated rate (basic levy).

Source: Utah State Board of Education and Utah State Tax Commission.
Minimum School Program Partially Offsets Property Tax Inequalities With Income Taxes

• FY 2022 Minimum School Program (MSP) $5.9B Total

• Components
  • Basic Program $3.7B
  • Levy Guarantee Program $1.0B
  • Related-to-Basic $1.2B

Figure 4: Minimum School Program Funding, FY 2022 ($ in billions)

Source: Office of the Legislative Fiscal Analyst
Basic Program Concept – Full Statewide Equalization

- **Revenues Equalized**
  - Uniform statewide school property tax
  - Uniform statewide income tax

- **Spending Equalized**
  - Weighted pupil unit allocation methodology based on student characteristics
  - Similar students funded similarly throughout the state

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**Basic School Program for Two Hypothetical School Districts**

**Basic Program Helps Equalize Property Tax Disparities**

<table>
<thead>
<tr>
<th>District A</th>
<th>District B</th>
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<tbody>
<tr>
<td>More Property Tax</td>
<td>Less Property Tax</td>
</tr>
<tr>
<td>$6,000,000</td>
<td>$30,000,000</td>
</tr>
<tr>
<td>$32,000,000</td>
<td>$8,000,000</td>
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</tbody>
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- **Value of WPU** ........... $3,800
- **No. of WPLs** ............ 10,000
- **Basic program** ........... $38,000,000
- **statutory entitlement**

The Basic School Program guarantees each school district and charter school the amount of revenue generated by its number of weighted pupil units (WPLs) multiplied by the value of the WPU.

Each school district imposes a uniform statewide property tax rate, called the basic levy.

The state allocates the remaining revenue required to fully fund the statutory WPU allocation, after accounting for revenue generated by the basic levy.

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**Source:** Kem C. Gardner Policy Institute
Uniform Statewide School Property Tax

Figure 7: School Property Tax Statewide Basic Levy Rate, 1922–2022

Rate adjusted for changes in statutory assessment levels, which were below 100% from 1947 to 1986.
Source: Utah Superintendent’s annual reports
Discretionary Local Taxes Now Make Up Lion’s Share of School Property Tax

Figure 8: Statewide and Discretionary Local Property Tax Revenue as a Share of Total School Property Tax Revenue, 1921–2021

Source: Utah Foundation, Utah State Tax Commission, and Utah Superintendent’s annual reports
What Happened in 2022?

- Frozen basic levy (final year)
- Many entities held truth in taxation hearings to increase tax rates
- High inflation
- Property taxes shifted from businesses to households
- Legislature passed SB 25, property tax relief via deferrals for qualifying taxpayers
With Inflation, More Taxing Entities Looking to Exceed Certified Tax Rate

Figure 9: Statewide Number of Entities Holding Truth in Taxation Hearing, 2010–2022

Source: Utah State Tax Commission
Property Tax Relief – Circuit Breaker

Figure 11: Existing tax relief programs are underutilized

80% Eligible but Not Receiving Benefit
20% Receiving Benefit (About 12,500 Recipients)

Source: U.S. Census Bureau and Utah State Tax Commission
Conclusion

• Property tax key revenue source for schools and other local governments

• Accurate assessment key to Utah’s property tax system
  • School funding ramifications
  • Assessment challenges

• Ongoing property tax policy discussions continue