
A Hammer, A Square Peg, and a Round Hole

**Utah's future is not a matter of
chance, it's a matter of choice!**

**A Report on Utah's Tax Structure
by the Utah League of Cities and
Towns' Tax Team**

July 2004

Acknowledgements

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Table of Contents

	<u>Page</u>
Preface.....	i
Why Do We Care About the Tax Structure	1
Citizenship Suffers	2
Utah’s Municipal Governments	3
Utah League of Cities and Towns’ Involvement.....	4
Preparing for Today	7
A New Approach: ULCT Tax Team Created.....	10
Revenue Issues	11
Time for A Change	15
Economic Development vs. Revenue Generation.....	19
Process/Criteria for Solutions.....	23
Conclusion.....	23





Preface

The Utah League of Cities and Towns (ULCT) is, and has been, concerned about Utah's tax structure. In March 2004, ULCT formally established a Tax Team. The mission of the Tax Team is to identify the problems that municipal officials encounter because of the existing tax structure and to implement new principles of local government finance.

The Tax Team is co-chaired by Mayor Tom Dolan of Sandy and City Manager Tom Hardy of Bountiful. Mayor Dolan is currently serving his third term as Mayor. He serves on and has chaired numerous boards and committees, such as Past-President ULCT, Vice President Economic Development Corporation of Utah, and Vice Chair of Envision Utah. Mayor Dolan received the 2002 Utah APA Citizen Planner Award and was named Sandy Area Chamber of Commerce Man of the Year in 1997.

Mr. Hardy has served as an administrative official in local governments in Utah, California, Arizona, Florida, and Oregon for over thirty years. His expertise is municipal finance. He received his masters of public administration with a specialization in finance administration from Brigham Young University in 1973. Mr. Hardy has received numerous professional awards and acknowledgements throughout his career.

The team is facilitated by Dr. Patricia Keehley. Dr. Keehley received her doctor of public administration in organization theory and policy analysis from the University of Georgia and holds masters and bachelors degrees in public administration and psychology from the University of South Florida. As a trained facilitator, Dr. Keehley has over twenty years experience with U.S. and international governments. Her current and former clients include AT&T; various U.S. Federal agencies; the Federal Deposit Insurance Corporation; the United Nations; state and local agencies in Colorado, North Dakota, Utah and California; and local governments in Guam, the Commonwealth of Northern Marianas Islands; the Federated States of Micronesia; and the Republic of Palau.

This document is the result of many hours of meetings, discussions, and research by Tax Team Members and support staff.

While we discussed and developed this document, the following two overriding themes emerged:

- First, it is clear that "one size does not fit all." Utah's cities and towns are diverse, and an approach that works well for one may spell disaster for another. While streamlining and creating homogeneous

approaches may work well for some services, it is clear to us that such an approach does not work for Utah's tax policy. Some of the challenges we face today are directly rooted in past efforts to create "across the board" policies.

- Second, economic development officials from the state have a very different agenda from that of our local leaders. While intellectually we all know that good economic development programs result in the creation of high paying, household sustaining jobs, the incentives for local officials to work creatively to attract such businesses are simply non-existent. Rather, Utah's tax structure drives local decisions to attract retail development and the all-important sales tax dollars that such development brings local communities.

We recognize that to address our concerns we must be cognizant of the impact on other entities such as the state, schools, counties, and special services districts. We must work with leaders at all levels of government. Our goal is to create solutions that enable leaders to lead by choice rather than by chance.

This document represents the best collective effort of local officials in several decades to pinpoint our community concerns and actively engage in a dialog to address the issues. We hope to join with you in the coming weeks and months to formulate proposals that ensure the quality of life and the financial stability that our citizens expect and demand.

Why Do We Care About The Tax Structure

Since its founding, Utah has been blessed with the spirit of community; the force of that spirit has shaped our state like no other. Community is as important today as it was in 1847, but the challenges that threaten community are simply unprecedented. Hard evidence reveals that our schools and neighborhoods simply don't work well when community ties slacken and that our economy, democracy, and even our health and happiness depends on strong and vibrant communities.

So then, what is at stake if we fail to respond to service delivery, funding, and tax structure problems identified in this report? Will roads be more bumpy? Will the grass in the park grow longer? Will police officers and fire fighters respond more slowly? Will we continue to favor

strip malls and car lots more than homes and open spaces?

Maybe we can live with these changes... unless it is *your* car that is knocked out of alignment, or *your* child playing baseball or soccer in calf-high grass that is turning to seed, or *your* loved one experiencing a heart attack or home burglary. Maybe we can live with these changes...unless it is

your backyard that plays host to the newest super store when a competing enterprise exists less than a mile away, or unless it is *your* job that is transferred because the business moved to another state.

The very quality of life, which we take for granted daily, depends upon good government

policy and decision making. But the current revenue structure reveals that occasionally, municipal officials make decisions based on volatile, short-term revenue gains rather than stable, long-term revenue gains.

Our future is not a matter of chance, it's a matter of choice.

"Doing nothing will also undermine the sense of community that binds us together. Those who can afford it will take care of themselves, retreating to private schools and gated communities with private security, and everyone else will be left to fend for themselves."

David Osborne

Citizenship Suffers

We challenge community members to upgrade their status as mere “taxpayers” to full-fledged, community-minded citizens who are willing to invest socially, physically, and financially as did the first builders of our communities.

Perhaps the central test of community, the subtlest of all, is the modern disengagement of its individual members. Our very attitude toward our roles as citizens has undergone dramatic change in recent decades. In some circles, civic engagement has given way to disrespect for public life: voter turnout is at an all-time low, comforting notions that people had of shared identity and mutual obligation and responsibility have been replaced by a disquieting sense of alienation, isolation, and higher expectations for service.

It seems that many people are increasingly opting for the gated and isolated life. In many instances, choosing to pay for “private” community swimming pools, security services, and infrastructure maintenance leads people to resent paying taxes that supply such services to the

larger community. One striking manifestation of community withdrawal is precisely the way in which we have become a society of “taxpayers,” rather than “citizens.” A “taxpayer” who pays grudgingly for community services is a pale and sickly reflection of the robust, full-fledged “citizen” willing to invest, sacrifice, and get involved in the name of community. A “taxpayer” is just a customer. Aside from paying his bill, he has no responsibility to the service provider or to fellow “customers.” Gone are the days when “citizens” willingly paid to maintain a base level of services for the community. Today’s taxpayers seem to disregard the need for societal services and instead to favor dedicated user fees.

As David Osbourne observed in *The Price of Government*, “Doing nothing will also undermine the sense of community that binds us together. Those who can afford it will take care of themselves, retreating to private schools and gated communities with private security, and everyone else will be left to fend for themselves.”

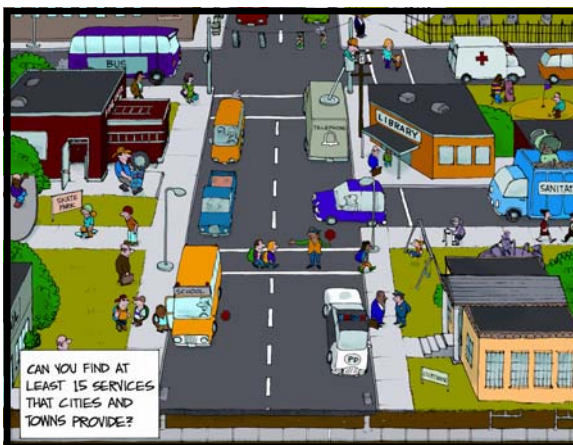
Quality communities enhance a person’s feelings of citizenship and a general notion of wanting to participate and to belong. Quality communities reduce the

urge to lock oneself behind a gate paying no mind to the larger community. The title “*citizen*” calls on that person to be responsive to other citizens and to the interdependent larger community of which the participatory citizenship is the driving force. Restoring that citizen’s identity will benefit not only the historic sense of community, but will help create a holistic opportunity by which that community can address the issues facing the delivery of municipal services.

counterparts at the state, special service district, county, and public education levels, Utah's municipal leaders consistently provide quality services at a fraction of the cost of some of our national peers. Utah's local tax and fee burden currently ranks 40th in the nation. Utah's local governments provide services, visible and unseen, that touch people daily and that embody the definition of quality of life. Ponder what our communities and our very lives might be like without the following:

Utah's Municipal Governments

Utahans can boast that our municipalities are some of the most efficiently operated governments in the nation. Like our



- Police and fire protection
- Parks and open spaces
- Well maintained streets
- Street lights, stop lights, sidewalks and crossing guards
- Planning services
- Water, sewer, electricity, and other utilities
- Bike, horse, and jogging trails
- Youth and adult recreation
- Swimming facilities
- Libraries
- Sidewalks
- Storm water and drainage systems
- Garbage removal

These are some of the many services that Utah's local governments provide every day. The ten o'clock news seldom

heralds the day-to-day quality of such services, but it is undoubtedly a front-line story if one of these services is interrupted or delayed.

The men and women who provide municipal services live and work in local communities. Their children attend school with the children of other citizens. They shop in the same stores, eat at the same restaurants, work in the same businesses, and worship in the same churches as those who entrust them with the mantle of leadership. When a new tax or fee is levied, or service reduced local officials have to face the people, pay the tax, and live with the new service level daily. Municipal government truly is citizen government.

A majority of our communities and the local governments that serve them are facing constant change. Leaders need flexibility to respond to these changes while still providing quality levels of service. Government at all levels needs to be responsive to shifting demographics and enduring changes in the economy.

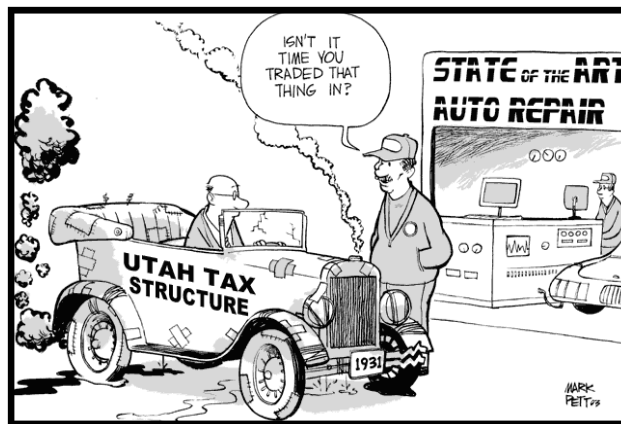
The way our communities look is not a matter of chance, it's a matter of choice.

Utah League of Cities and Towns' Involvement

The current tax structure was developed over seventy years ago for a very different time and economy. Since then, the state and its cities and towns have changed

dramatically. So too have the nature and expectations of the taxpayers. Despite that significant period of growth and metamorphosis, the current tax structure reflects

few of those changes. In fact, it has been noted that "America is waist deep in its worst fiscal crisis since World War II." During the past decade, the Utah League of Cities and Towns has worked to show municipal officials the potential hazards of ignoring the current rigid structure. Throughout the heyday of the sales tax



rich 1990s, the League was concerned that local leaders would face tough decisions on service and tax levels if they strayed unchecked from the stable property tax to the more volatile sales tax. League

warnings were largely tucked away as “chicken-little” alarmism. Even as sales tax revenues were soaring to heights unprecedented in many of our municipalities, the League Board and staff warned local officials that sales tax revenue does not always increase and that cutting a budget means not just slowing expenditure growth but actually adopting revenue and expense numbers that are lower than in previous years.

Citizen's appetites have been whet for high quality and diverse municipal services. Over the next five years alone, Utah municipalities will need an infusion of over \$400 million to respond to water, sewer, and storm drainage capital needs and a minimum of \$300 million to maintain roads, sidewalks and street lights. Another \$500 million is needed to respond to the infrastructure needs of public safety, courts, housing, solid waste, libraries and parks, just to name a few.

Nonetheless, many of Utah's local officials continued to mistakenly assume that growing by 3.5 percent rather than 4 percent constitutes a budget reduction. Admittedly, some local officials, seemingly, have been willing to take an easy approach toward budgeting – relying

on sales tax to increasingly cover ongoing expenses while shying away from, and in some instances, even furthering public disdain for property taxes.

The Utah League of Cities and Towns and its Tax Team clearly need to continue working with our local officials on these difficult and potentially damaging misperceptions. Nonetheless, the existing and limited tax structure fosters, and even encourages, decisions we sometimes later regret.

Certainly, when needed new shopping or retail outlets are built in a particular community, the resulting economic growth is good for the

community it serves and the citizens living in the surrounding area. Yet we need a tax structure that ensures that market forces, combined with reasoned local planning, dictate the location of such amenities. Under today's system, such decisions are at times influenced by the

willingness of local leaders to entice a development to a particular side of a jurisdictional boundary for revenue reasons rather than sound long-term planning.

Why do local officials chase these seemingly easy dollars? The answer is clear -- citizens' appetites have been whet for high quality and diverse municipal services. Local officials feel duty bound to endeavor to satisfy those increasing appetites. Curbside recycling, enhanced recreation programs, water fluoridation, snow removal within hours of a storm, high speed internet access, and smooth roads with properly timed traffic signals are now the minimum service level standards expected in many communities.

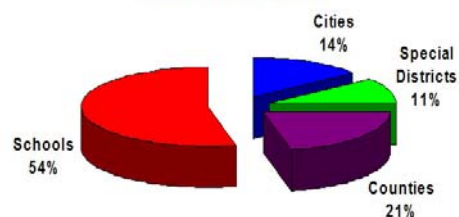
Couple the public demand for services with our decades-long decisions at all levels of government to defer capital expenditures, and the revenue crisis crystallizes. While previous generations of taxpayers committed to build the utility and transportation systems and other physical amenities on which we depend, the current taxpayers are willing to defer capital replacement and maintenance in an ongoing effort to close budget gaps and maintain low taxes. Today, many of Utah's municipal leaders face a growing

inventory of infrastructure needs. Over the next five years alone, Utah municipalities will need an infusion of over \$400 million to respond to water, sewer, and storm drainage capital needs and a minimum of \$300 million to maintain roads, sidewalks, and street lights. Another \$500 million is needed to respond to the infrastructure needs of public safety, courts, housing, solid waste, libraries, and parks just to name a few.

At inception, sales tax for local governments was designed to fund capital infrastructure and improvements, while property tax was used to cover ongoing and day-to-day basic services. The advent of State laws designed to limit property taxes, coupled with robust sales tax revenues, public clamor, and statutory limitations led local officials to avoid viewing property tax as a growth revenue

Where Property Taxes Go in Utah

source: Utah Foundation



source. Instead, those officials shifted toward regarding sales tax as the most viable revenue source for ongoing services. Today, on average, less than 15 percent of the total property tax bill, or approximately \$150, is paid for municipal services. Certainly, those services cannot be provided for the amount of property tax that most households pay to their municipality.

Non-scientific surveys of locally elected officials in the late 1990s suggested that very few officials were involved with government during the recessions of the 1980s. On the other hand, samplings of administrative officials suggested that most of them did experience the economic downturn of the 1980s and, in fact, share the League's concern that Utah municipalities have been trading stable property tax revenue for easy sales tax and politically-popular property tax rate decreases. Ironically, as the municipal decisions that are tied to insufficient revenue begin to materialize, many municipal administrators are nearing the ends of their careers and will take with them the institutional knowledge that will be key to solving many of today's dilemmas. The time to make a change is now.

Preparing For Today

For the past several years, the League Board and staff have prepared for the gathering storm on the municipal horizon. While Utah's tax structure may be better than that of some other states, the League Board and staff have held firm that more than fine tuning is required to ensure a strong financial foundation for Utah's public service providers. As a League, we



are prepared to be a major part of the solution. The following items are some of the steps we have taken to prepare to meet the challenges of funding municipal government services:

- **1998:** We began collecting and warehousing municipal finance data. Now backfilled to 1992, our financial

database allows us to learn from trends of the past and make recommendations for municipal revenue and expenses into the future.

- **1999:** We created the first charts to confirm our belief that municipalities had systematically shifted funding dependence from property tax to sales tax. The information was taken from our database and prior survey data.
- **2000:** We began discussing the history of taxation in Utah and began to earnestly educate legislators about the many services provided by municipal governments and the threats to funding sources.
- **2000:** We merged our database efforts with the State Auditor's Office and University of Utah Center for Public Policy Administration. Our data now serves as the municipal data of record for the U.S. Census Bureau.
- **2000:** We met with the editorial board of the Deseret News. The Board editorialized that Utah's tax structure was in need of attention and that the



ULCT was requesting that a dialogue on these topics begin immediately.

- **2001:** We produced our first Telly Award winning video “A Solid Foundation for the Future.” It was within this video that the phrase “zoning for dollars” was coined. The video was well received and was shown at council, chamber, and association meetings throughout the state. The video

aired on *Take Two with Rod Decker* in June 2001.

- **2001:** We conducted our first statewide public survey to determine citizens' attitudes toward and understanding of taxation in general and municipal services specifically. From this we learned that while a portion of the electorate believe property taxes are remitted to the federal government, even more have no idea where their taxes go or how their local services are funded.
- **2002:** We also spent considerable time at our conferences and other

training venues discussing public policies and their consequences. Armed with our financial database and public survey data, the League presentations centered on the perceptions and realities of Utah's tax structure.

- **2003:** We began by launching a public information campaign designed to inform the public of the services they

receive from municipalities and how those services are funded. We created budget message and community newsletter templates, aired a series of radio spots during the legislative session, and spoke at as many council, chamber, and association meetings as would place us on the agenda.

- **2003:** We again completed a statewide public survey in August to see if our efforts resulted in a greater public understanding of taxation and service issues. The survey results confirmed our belief that a more intense effort was necessary to inform the public of the challenges facing

municipal and state leaders.

- **2004:** We premiered our second video production "Creating a State of Community" in January at Local Officials' Day. The video was a winner in the *Salt Lake Tribune's Best*

of State competition. The video, which focuses on the challenges facing Utah's communities, was well received and has been

viewed by hundreds of local officials.

Our dedication to this issue is resolute and ongoing. We invite others to join with us to discuss, study, and refine the issues and ultimately create a solution that provides a meaningful and long term opportunity for local government to provide the quality and quantity of public services demanded by our constituents.

Utah's future is not a matter of chance, it's a matter of choice.



A New Approach: ULCT Tax Team Created

Despite our best efforts over the years, during the 2004 Legislative Session, the League Board determined that none of our attempts to alert state and local leaders or the public to the brewing revenue dilemma had achieved the requisite attention. While many groups collectively, and some officials individually, talked about the concerns and seemed to agree that a problem was percolating, no one was taking the reigns.

As such, the League created the ULCT Tax Team. The team, co-chaired by Mayor Tom Dolan of Sandy and City Manager Tom Hardy of Bountiful, is

broadly represented by elected and appointed municipal officials from throughout Utah. This effort is modeled after other recent successful League-initiated efforts to bring those with disparate views together to achieve a consensus solution (i.e. our governmental immunity task force). Dr. Patricia Keehley facilitates the Team.

ULCT Tax Team Members

Mayor Tom Dolan, Sandy, Co-Chair

Tom Hardy, Bountiful City Manager, Co-Chair

Mayor Janice Auger, Taylorsville; Mayor Larry Ellertson, Lindon; Mayor Gil Miller, Bear River; Mayor Fred Panucci, Syracuse; Mayor Charlie Roberts, Tooele; Council Member Suzanne Allen, St. George; Alex Jensen, Layton City Manager; Gary Uresk, Woods Cross City Administrator; Jan Wells, Murray City Mayor's Office; Jim Reams, Orem City Manager; Ken Bassett, Vernal City Manager; Lee King, Midvale City Administrator; Nate Pierce, Ogden City Chief Administrative Officer; Rocky Fluhart, Salt Lake City Management Services Director; Tom Bakaly, Park City Manager; Wayne Parker, Provo City Chief Administrative Officer; Wayne Pyle, West Valley City Manager

The Tax Team members represent a myriad of community types and sizes. All members possess strong opinions, have diverse points of view, and see different paths to resolve the challenges before them. Nonetheless, after the first few meetings, Tax Team members collectively

Tax Team's Mission

"The mission of the team is to identify and implement principles of local government finance that are fair, consistent, predictable, stable, sustainable, efficient, flexible – over time and across cities, and effective.

Further, the mission of the team is to provide a proactive, unified voice on issues of local government revenue and legislative policy.

Finally, the team's mission is to develop tools for local officials to provide municipal services. The tools should allow local officials to make decisions that work for their specific communities rather than attempting to achieve a "one size fits all" solution."

concluded what they individually knew: in order to provide services to the citizens of Utah, a balanced compliment of revenue, expense/demand, and economic development tools must be used. Current economic development tools are often unused, unpredictable, inflexible, or preclude good planning and management because municipal officials must make decisions expediently or because they are dictated by current tax laws; often, the consequences are not what they intended. Given the right tools, we can do better. The taxpayers deserve it — sound financial planning and continued quality service delivery demands it.

Utah's tax structure is not a matter of chance, it's a matter of choice.

Revenue Issues

While municipalities have historically relied upon a combination of property, sales, and franchise taxes and fees to finance general fund needs these funding sources are viewed and valued differently by Utah's cities and towns.

For instance, municipalities that are primarily residential complain that residential property taxes are inadequate to fund demanded services. They argue that they have no significant sales tax base, but that they supply the population that sustains the sales tax base of their neighboring retail-centered municipalities.

On the other hand, the retail centers argue that the workforce and the consumers that come into their municipalities only to work create infrastructure and public

safety demands that outstrip the revenue stream generated by those workers.

While growth communities use impact fees to defray associated costs,

communities that are built out or are very small do not benefit greatly from impact fees because strict restrictions nullify the fees' usefulness. Yet these same communities must still often grapple with

Tax Team Problem Statement

The Team has also outlined the component parts of a problem statement that include the following:

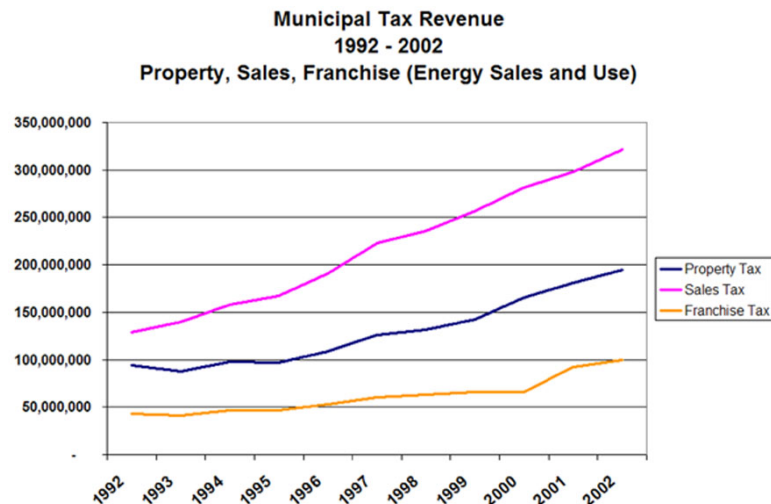
- 1. Portions of the existing tax structure are obsolete.*
- 2. Municipalities face an increasing and ever changing demand for services.*
- 3. As populations, demographics, and the economy change existing services must reflect the changes.*
- 4. As expectations change, new services are required. For example, many rural communities are expected to provide urban services, but lack the resources necessary to meet these needs.*
- 5. Municipal leaders occasionally fund ongoing service needs with one time revenue sources.*
- 6. Municipalities' dependence on sales tax revenue creates a situation where day to day needs cannot be met when this revenue decreases unless other services or revenue sources are adjusted.*
- 7. Structuring sustainable funding for municipal services is not as simple as trading reliance on sales tax for reliance on another specific ongoing revenue source.*
- 8. Each community has different factors that require a different combination of solutions and tools. A revenue structure that works for one community may be disastrous for another. One size does not fit all.*
- 10. Many legislators, special interest groups, and others believe government should be smaller and should not provide services perceived to be in competition with the private sector. Many legislators believe that municipalities have adequate funding to provide necessary services.*

growth-related expenses.

Franchise fees and taxes can be very important revenue for a community with large tracts of tax exempt property, yet the rules that govern such revenue don't allow these communities to assess fees at any greater level than they can be assessed in a community with little or no tax exempt property.

Exacerbating this problem is the confusion at the state and local level regarding the correct role of the many layers of government – state, special districts, municipalities, counties, and school districts. The services they provide often overlap and, in large part, they are competing for the same revenue streams. For example, if the Utah Transit Authority is to be properly funded for its widely-desired transit services, it wants more sales tax. All entities that enjoy the benefits of sales tax intrinsically know that there is an unofficial, but nonetheless very real ceiling on the amount of sales tax that can be imposed on any transaction. Those same entities know that if one entity, such as UTA, gets a part of the remaining available sales tax the likelihood that others will get some in the

future is marginally reduced. Frequently the competition for those dollars stifles the community interests that exists



between different layers of local government, and the common good is harmed. Add to this mix the fact that many people desire to remove sales tax from food, and it becomes clear that too many service needs are competing for a limited revenue source.

In spite of divergent and competing views regarding the benefits and problems of any particular revenue source, municipal leaders have universally adopted the mantra “one size does not fit all.” In other words, a broader range of tools that can be used for different community needs is required. While the population, geography, wealth, and municipal

personality are as individualized as their residents therein, municipal leaders are, in most cases, currently provided cloned revenue sources. These revenue sources potentially inhibit certain municipal leaders' decisions rather than encourage them to stylize funding, services, and land-use decisions that best meet the needs and goals of individual municipalities. A broader range of tools for different communities is required.

These difficulties are magnified by tax laws that detract from an otherwise sound revenue source. Nowhere is that more true than in property tax. Municipal budgeters are compelled to deal with the symbiotic ties of Truth in Taxation legislation, sales tax, sound land-use planning, and economic development. For instance, Truth in Taxation has been successful in minimizing property tax as a practical municipal revenue source. Elected officials are resolute in avoiding, at almost any cost, the discomfort of the political pummeling associated with a Truth in

Taxation hearing, which is the very goal of its architects. **As a result, property tax has dropped as a percentage of municipal general revenue from 40 percent in 1968 to the current average of 18 percent.** While its purpose may be laudable, its methods are more inflammatory than informational and, as such, counterproductive to many of the

decisions that should be made by locally elected officials.

The result of decreased dependence on the property tax has been dramatic and predictable: an all out effort to attract sales tax and other revenues. **Contrary to property tax slipping as a percentage of total**

general revenue, sales tax has increased from 19 percent in 1968 to a current average of 31 percent. While municipalities acknowledge that dependence upon an economically volatile source such as sales tax is not best practice, the inequitable application of the law towards property tax forces municipal leaders to be tempted by the less reliable sales tax revenue. Municipalities are now experiencing the results of over-

Property tax has dropped as a percentage of municipal general revenue from 40 percent in 1968 to the current average of 18 percent.

Contrary to property tax slipping as a percentage of total general revenue, sales tax has increased from 19 percent in 1968 to a current average of 31 percent.

Source: ULCT Fiscal Database

dependence upon boom-years sales tax as those years turn less golden, yet the few, currently available options offer minimal incentives to change the course of revenue planning. Even while individual municipal officials may agree that chasing sales tax revenue is not the best approach in the long term, they realize there are short term budget gaps to fill, and sales tax is the easiest and quickest remedy.

Aside from the issue of sales tax volatility, municipalities' increasing reliance upon sales tax creates a dilemma for decision-makers of significant proportions: how do you maintain your municipal identity distinct from others when each municipality must consider zoning for car lots, big box retail, and strip malls as a way to increase its revenue to pay for expected services? In a larger sense, the need to attract sales tax dollars, not a coherent community development plan, can dictate what a community becomes. At the same time, each municipality is tempted, in large part, to abrogate the individual land-use planning and economic development decision-making function that was, in fact, the very reason they were elected to public office – to reflect the municipality's personality and aspirations and to carry the banner “one size doesn't

fit all.”

Funding services should not be a matter of chance, it should be a matter of choice.

Time for a Change

Local government has changed and will continue to change as communities become more urbanized with more free time, disposable income, greater public safety demands, population increases, cultural diversification, and an abundance of other driving factors. It is fitting and expected that local government should change to address the needs of a changing society. So, too, it is fitting and expected that municipal officials be given flexibility to efficiently implement those changes.

Unfortunately, it is becoming increasingly difficult for municipal governments to act as experimental service delivery and funding laboratories. Some examples are as follows:

- With a large percentage of the property within its border being tax exempt, Salt Lake City imposed its utility franchise fee at a level that helped cover the property tax shortfall. The Legislature intervened and set a ceiling on franchise fees less

than Salt Lake's imposition.

- Moab decided it didn't want to impose property taxes, so instead imposed business revenue taxes. The Legislature again intervened and capped business license revenue that exceeded the cost of regulation.

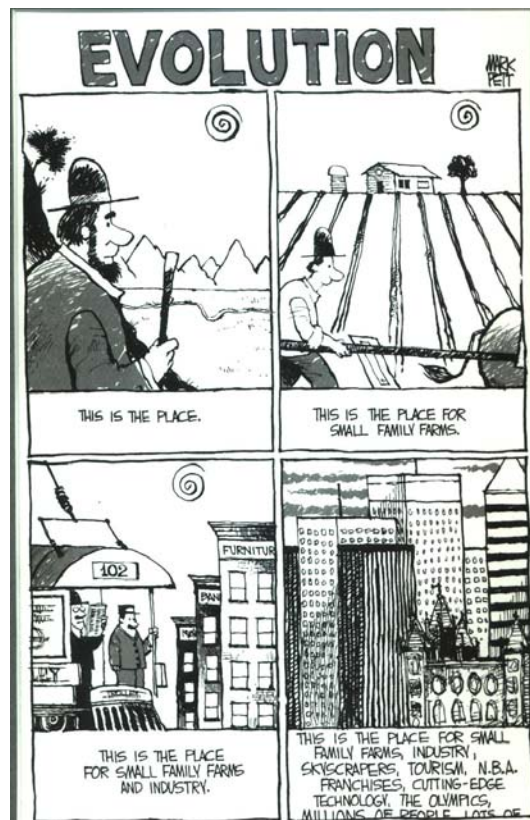
In short, local government has been discouraged from being innovative and from fashioning creative methods that meet not only the revenue needs but meet with the acceptance of the local constituency. Rather than stifling this revenue crucible, the Legislature should look to encourage those methods that best suit a particular community's individual characteristics: to temper a new idea, a new way, a better way. After all, "one size does not fit all."

Contrary to the sentiment of an uninformed few, public officials do not

raise revenues to deliver services that the public has not requested. Also, we hypothesize that if polled, the average taxpayer would reject a revenue increase for existing municipal services. On the other hand, if queried about eliminating services, those same taxpayers would

likely favor cutting only those services that they believe were not consumed by them.

While eliminating or reducing services is an obvious tool that many cities have recently used, this practice may not always be responsible, reasonable, practical, or in the best long-term interest of a community that is striving to be an effective cog in the state's economic development wheel.



Editorialist Don Gale noted "taking away is easy, any bully can do that. But adding to requires creativity and vision and courage and leadership. That's what community leaders should be most concerned about—making sure your

communities survive . . . making sure they thrive . . . making sure your citizens find beauty, and happiness, and satisfaction in living there . . . making sure you provide them the services and resources they need in order to be happy, productive citizens.”

Legislators need to reassess their relationships with the local officials, the municipalities they represent, and the individual characteristics of each municipality. The experimentation laboratory is stifled, in part, by the increasing tendency among some legislators to view all constituent issues as state issues. In the past a legislator would typically respond to a citizen

complaint regarding a local service or tax by calling the local official; all too often, today’s complaints are handled in proposed state legislation designed to set a common standard for all municipalities. In Utah, our 237 cities and towns (soon to be 238) are as unique and diverse as their numbers suggest. A solution that works well for one may be disastrous for another. The effective result of a “one size fits all” approach is that local

communities cannot establish services and revenue streams to meet their distinct community characteristics. Under the uniform approach, local leaders’ hands can be tied even when citizens in the community support the new idea or the new way to pay for services.

Local services should not be a matter of chance, they should be a matter of choice.

“taking away is easy, any bully can do that. But adding to requires creativity and vision and courage and leadership. That’s what community leaders should be most concerned about—”

Don Gale, Editorialist

The cities and towns represented by the Tax Team reflect the diversity of our communities.

Certainly, our cities and towns have changed dramatically in the seventy-plus years since the current

tax and revenue system was envisioned. Even since the last major sales tax distribution change was enacted twenty years ago, many of our communities have been profoundly altered.

Our municipal siblings bare little resemblance to each other. Some of our communities are business and shopping centers; others cater to students, while still others to tourists. Some of our

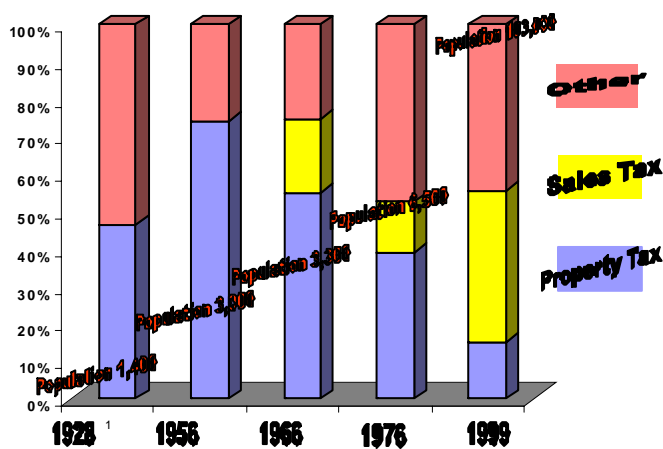
communities remain agricultural, while others have morphed into suburbs. Each of these populations demands unique and different services as well as a stylized approach to service funding. This community diversity necessitates a tax structure that allows local officials to respond to the unique revenue and service needs of our many changing communities.

south and west, and Sandy's east bench is struggling with possible school closures. Such demographic shifts not only impact schools, but municipalities as well. As populations age, demands for municipal services shift. The need for playgrounds and soccer fields give way to a demand for walking paths and community gathering centers.

Change is a critical factor in assessing and planning the needs of a particular community. For example, in 1970, Sandy City was a sleepy suburb, home to

approximately 6,400. By 1980, Sandy was a growing city providing services to 56,000. Fast forward to 2004 and well over 100,000 call Sandy home. And many more thousands work and play in Sandy on a daily basis. Yet even as the current decade progresses, Sandy sees itself facing many of the issues faced in years past by Salt Lake City's urban core. School populations are shifting further

Sandy City Revenue History



Contrast Sandy's experience with the experience of Ogden City. Once one of Utah's largest communities, Ogden's population declined in recent years. In 1960 Ogden was

home to over 70,000. By 1990 that number dropped to just over 60,000. Add to the mix large tracts of tax exempt property, aging infrastructure and population, and a loss of major employers and Ogden is left facing some formidable fiscal challenges.

For another example, look to once bustling mining communities in Carbon

County. From 1980 to 2000 Helper's population dropped from 2,700 to just over 2,000. Businesses were closed, homes boarded, and the town of Helper was left to reinvent itself. In 1992 Helper collected \$69,000 in property taxes. In 2002 the town coffers included \$59,000 in property tax. The \$10,000 decline in property tax is more dramatic when considering the present value of money.

Or look to Price City. Despite a declining population Price remains 70 percent dependent upon sales tax as a general revenue source.

In summary, the public should be provided an understanding of the value of the services they receive from all levels of government and should be part of the decision-making process for any service delivery, elimination, or reduction. Locally elected officials should be encouraged to meet the demands of their constituents in a manner that is efficient, effective, and has the support of the people paying the tax or fee. Legislators should be encouraged to remember what the average voter knows: Local government is the government closest to the people, most accessible to the people, and most capable of being responsive to the people. Given the opportunity and the

flexible tools to mine that opportunity, local leaders can continue to meet the service demands of generations to come and, concurrently, be part and parcel of a vibrant economic environment offering quality of life choices consistent with constituent expectations.

Economic Development vs. Revenue Generation

As communities change, local leaders find themselves grappling with revenue, demand, and expense implications. Under our current system of limited revenue options and as a result of an increasing demand for services, local officials find that the only place they can turn is to what they loosely term "economic development." Far from the economic development principles taught by leading economists, Utah's municipal version of economic development is based on one outcome: additional revenue to fund municipal services without having to raise property taxes.

The mission statement for the State's Division of Business and Economic Development reads: *"The mission of DBED is to grow quality jobs, to ensure economic prosperity and to enhance our quality of life, statewide."* While municipal officials, like state officials, intellectually recognize that sound economic development relies upon the creation of clean, stable, high-paying employment, and the ability to attract outside capital to our state through programs such as tourism, the current revenue structure dictates that, from a short-range financial standpoint, it is better to attract the strip mall than the assembly plant. Recent revenue estimates completed by Sandy City planners suggest the following fiscal impacts to Sandy City for development of a 20-acre site:

Financial Services:	\$54,064
Light Manufacturing/ Assembly:	\$105,873
Large Retailer:	\$611,983
Automotive Retailer:	\$1,541,042

In that regard, the current system is the antithesis of good long-range economic development.

In addition, while municipalities are highly motivated to attract development that generates sales tax, the intra-state

location for such a development is mostly without revenue consequences to the state. The state will get its share of the sales tax regardless of whether a business locates in Logan or St. George.

Accordingly, there is no shared interest between the state and municipalities. Nonetheless, it remains a fact that most economic development in the state occurs in our local communities. Businesses don't choose to come to Utah, they choose to come to a particular community within Utah. Cohesion between state and local leaders is an inherent element of top notch economic development.

It is obvious that the current tax system combined with a lack of municipal restraint have allowed some municipal

"The mission of DBED is to grow quality jobs, to ensure economic prosperity and to enhance our quality of life, statewide."

State CED Annual Report 2003

leaders to confuse revenue enhancement and generation with economic development. While certainly some economic development may result in revenue enhancement for a local municipality, more often than not, the benefits of true economic development are not currently directly tangible for local officials. Likewise, tax policy will always drive revenue generation and enhancement. Currently no collective vision exists. Utah needs a coordinated economic development system where local municipalities can reap tangible rewards for the following:

- delivering first-rate municipal services that make Utah a desirable location for residents, businesses, and visitors
- fostering the retention or expansion of existing businesses (regardless of sales tax implications)
- attracting new businesses that will provide household-sustaining employment
- supporting the state's ever-important tourism industry, including the sometimes seasonal and temporary nature of employees
- encouraging small businesses and entrepreneurship

To truly coordinate Utah's economic development efforts and to allow Utah to compete with neighboring western states, state, municipal, education, and business leaders need to match the roles of economic development activities with the responsible entities. Each entity must holistically support the other entities' roles. Cities and other governmental entities in Utah should not have to compete with each other, but rather, locate industries and employment centers where they make sense. On the following page is an example of an economic development responsibility matrix.

As the ULCT Tax Team discussed economic development and related issues, the following points were raised for consideration:

- What is Utah's niche? Is it quality of life?
- What types of businesses do we want to attract? For example, we decline to assess certain taxes on interstate telephone calls so that Utah remains attractive to telemarketing firms. Are these the jobs we want to attract to Utah? As more of these jobs transfer overseas, should we re-examine this industry's tax structure?
- Can/should different communities

<u>Responsibility</u>	<u>Who has an interest</u>
Workforce skills and training	Schools & Private Sector
Workforce services and development	State
Social Services	State and Counties
International Business Coordination	State
Grow local businesses	Chamber
Land Use	Municipal
Public Safety	Municipal
Local Road Construction & Maintenance	Municipal
Utilities and Basic Infrastructure	Municipal
Parks & Open Spaces	Municipal

have different niches and different tools to aid in niche development.

- Is Utah's education system a good match for our desired niche? Are we producing students with work skills for the types of jobs that we currently have and that we are attracting to the state?
- Do we have an inventory of our assets?
- Do we know what our workforce looks like?
- What are our natural resources and what businesses would be attracted to such resources?
- Should tourism be funded more aggressively? Tourism dollars are new dollars in Utah's economy, and tourists require few state, county,

municipal, or education services.

Although jobs in the tourism industry aren't often household-sustaining, is the benefit of new dollars in our economy enough to justify a coordinated effort to enhance this sector?

- Should Utah be looking to businesses that will bring thousands of jobs to Utah, or are we better equipped to attract, maintain and support sub-contractor level businesses that might bring a few hundred jobs?

It is readily apparent that a coordinated economic development plan best serves us all. Such a plan does not exist, but municipal leaders are working on a framework for such a plan. There needs

to be a partnership between the state and local governments.

Our economic future is not a matter of chance, it's a matter of choice.

Process/Criteria for Solutions

The Utah League's Tax Team is midway through its efforts to identify and examine the problems given birth by the current system and the resultant actions of municipalities. We do so with no preconceived notion of the solutions to those problems; but with a sense of exigency and with a uniform direction, we have begun to identify them. We have general consensus that in addition to being fair, consistent, sustainable, predictable, stable, and efficient, the following truisms must be addressed:

- There is a need to recognize that municipalities face ever changing demands for services.
- There is a need to recognize that the existing tax system is inflexible and does not foster coordinated economic development within the state.
- There is a need for a wide range of

tools to implement changes at all levels of government.

- There is a need for a uniform economic development vision at the state and local level.
- There is a need to maintain some uniformity while simultaneously maintaining autonomy and flexibility.
- There is a need for other stakeholders to be involved in the process of developing final solutions.

Conclusion

Eleanor Roosevelt observed "all big changes in human history have been arrived at slowly and through many compromises." The ULCT Tax Team knows that leaders from the state, special services districts, education, the business community, and others must ultimately be part of our effort if we are to succeed in implementing meaningful changes. The Team also acknowledges that many solutions proffered will require individual compromise for the good of the whole. It has taken municipal officials several years to arrive at a common understanding of the challenges we face. Others are now acknowledging these challenges as well. We know it will take time to develop solutions that satisfy the multitude of interests that must be represented.

As outlined in *The Price of Government*:
 “More fundamental problems will persist,
 because our tax base is, to use the
 National Governor’s Association word,
 “deteriorating.”

In the Information
 Age, we cling to
 an Industrial Era
 tax base, capturing
 less and less of the
 economy. Most
 states don’t tax
 services, which
 now account for
 almost 60 percent
 of consumer
 spending.

Congress and the Supreme Court forbid
 taxation of Internet access, as well as
 Internet and catalog orders from
 companies that have no physical presence
 in the purchaser’s state. Imagine that we
 had said, when we first imposed sales
 taxes in the 1930s, “We have to protect
 this new industrial economy, so we’ll tax
 only agricultural products.” When we
 refuse to tax services and Internet sales,
 we do the equivalent today.”

We do not enter this dialogue blindly. We
 know that realities such as Utah’s large
 federal land ownership, large families,
 and declining economic reliance upon

manufacturing and mining pose
 challenges to our efforts, yet we do not
 view these challenges as insurmountable.
 Nor do we view these challenges as any

greater than those faced
 by some of the
 community builders who
 preceded us. We only fail
 if we refuse to
 acknowledge and act.

We have initiated a
 process for change. We
 aim to develop a plan that
 has buy-in from all levels
 of the government, the
 business community, and

the general public. Our next critical steps
 in this process must include the following:

- An identification of others who must
 be involved in the process, such as:
 - ⇒ Other municipal officials
 - ⇒ Legislators
 - ⇒ Business leaders and chambers of
 commerce
 - ⇒ County and special district
 leaders
 - ⇒ Associations’ leaders (such as
 manufacturer’s, retailer’s,
 petroleum etc.)
 - ⇒ Quality growth partners

***“More fundamental problems will
 persist, because our tax base is, to
 use the NGA’s [National Gover-
 nors Association] word,
 “deteriorating.” In the Informa-
 tion Age, we cling to an Industrial
 Era tax base, capturing less and
 less of the economy.”***


The Price of Government

- ⇒ Taxpayer advocacy groups
- ⇒ Citizens-at-large

- An outline of some possible solutions to address our problem statements
- A measurement of how each solution matches the criteria we've set forth and how each potential solution impacts other entities.

Clearly, it is time for a change. Our future is not a matter of chance, it's a matter of choice. What legacy will we leave?

The problems facing the state, counties, municipalities, special districts, and education are not insurmountable. By eliminating some of the restrictions of the current tax system, developing new and flexible tools, and agreeing upon a coordinated economic development approach Utah's state and local leaders can become champions of change. However, the solutions we develop must be more than an intellectual exercise for the participants. The solutions must be recognized as the best effort of our generation; we must look at the needs and wants of the public and the means by which municipalities satisfy those demands. One thing is certain – the current system, coupled with the actions of municipal leaders, unnecessarily impedes the structure and purpose of government. The collective force of Utah's 237 cities and towns has joined together to initiate dialogue on this issue.



Notes

