
M E M O R A N D U M

DATE: October 18, 2005
TO: City Council Members
FROM: Russell Weeks, Jennifer Bruno
RE: Summary: Utah League of Cities & Towns Legislative Policy Committee Meeting
CC: Cindy Gust-Jenson, Rocky Fluhart, Gary Mumford, Lynn Pace

This memorandum summarizes major points of the Utah League of Cities & Towns Legislative Policy Committee meeting Monday. The summary includes an attachment of talking points that the League staff sent Tuesday to allow elected officials from cities in northern Utah to prepare for a public hearing held by the Legislature's Task Force on Tax Reform. The hearing will be held Wednesday, October 19, at 5:30 p.m. in the Capitol's West Building. The summary also includes two graphs depicting Salt Lake City's relative position in comparison to sales, services, and purchases within Salt Lake County and with the top sales, services and purchases leaders in Utah. Figures used in the graphs are from the Utah State Tax Commission.

Utah League of Cities & Towns

Utah Rep. Wayne Harper spoke to Policy Committee members about a number of issues involving the task force. But two issues – one involving taxation and the other land policy – raised concerns among Policy Committee members.

Rep. Harper said the Tax Task Force is considering eliminating municipalities' local option sales tax and replacing it with an offsetting adjustment in property taxes. Rep. Harper said the Task Force was raising the issue to see if it is a viable idea.

Under the proposal, Utah would have one statewide sales tax rate of 6.35 percent. Of that figure, 5.85 percent would go to the State, .25 percent would go to counties, and .25 percent would go to the Utah Department of Transportation. To offset cities' loss of sales tax revenue, they could raise property taxes. Property taxes correspondingly would be reduced from school districts and the state, Rep. Harper said. He estimated that local option sales taxes raise about \$360 million a year statewide. School Districts receive \$240 million statewide from property taxes, he said. Rep. Harper acknowledged that exchanging the local option sales tax for property tax left a \$120 million a year gap in revenue cities received. Rep. Harper said data is still being gathered to determine the percentage increase that cities would have to raise property taxes to offset the loss of sales tax to meet current revenue levels.

The proposal drew sharp responses from representatives of cities ranging from St. George to Riverton. Part of the reason for Policy Committee members' consternation was the cities' reliance on local option sales tax as a revenue source and the apparent lateness of the proposal.

Salt Lake City's tax revenue is derived roughly as 47 percent property tax, 35 percent sales tax, and 18 percent franchise tax. In contrast, Sandy derives 57 percent of its tax revenue

from sales taxes, 24 percent from franchise taxes, and 19 percent from property taxes. Park City's revenues are derived from 47 percent sales taxes, 43 percent property taxes, and 10 percent franchise taxes, according to figures shown at the League's fall meeting in September.

St. George City Council Member Suzanne Allen told Rep. Harper that St. George attracts a large daytime population of people who work in St. George but live and pay property taxes elsewhere. A Park City representative said the proposal gave city's no incentive to develop commercially. That was echoed by Sandy Deputy Mayor John Hiskey, who noted that 30 percent of Sandy's public safety budget went to its commercial area. Riverdale Mayor Bruce Burroughs said that shifting local government tax policy exclusively to property taxes would put a disproportionate burden on people who live in municipalities. Bountiful City Manager Tom Hardy said it seemed as if the Tax Task Force was "looking outside the box for cities, but not for anything else."

Layton City Attorney Gary Crane also asked Rep. Harper about items he had heard about House Speaker Greg Curtis' interest in revisiting the revision of land use laws that the Legislature passed in the 2005 session. Mr. Crane noted that the Legislature and the League worked 18 months to arrive at the law that was passed.

Mr. Crane said the contemplated revisions would "shift the presumption of land use decisions from municipalities to property owners. Under the concept cities would have to justify why property owners should not build what they wish to on their property. Mr. Crane also said the contemplated revisions would place time periods for municipal approvals of projects in which if a municipality failed to approve a project by a certain date, a developer automatically could proceed with a project.

Rep. Harper said that he expected there "will be a land use bill or more" and that on occasion the House Speaker had told him that he "really liked the Houston method of zoning." Policy Committee members noted that Houston, Texas, has no zoning ordinance.

League staff also raised the potential of a bill by Rep. Peggy Wallace (R-West Jordan) to require cities of the First and Second Class to operate under a council-manager form of government, possibly once a city reaches an established population threshold. There were some comments about the bill, including speakers who noted that the bill might stem from conflicts in cities of the Second and Third class. Taylorsville Mayor Janice Auger said simply changing a city's ordinances to reflect a change from a mayor-council system to a city manager-council system would entail significant costs.

Tax Taskforce Regional Meeting Talking Points

Times and locations of the upcoming **Tax Reform Task Force Public Hearings**:

SALT LAKE CITY

October 19, 2005 at 5:30 p.m.
Utah State Capitol, West Building

VERNAL

October 25, 2005 at 12:00 p.m.
Western Park, 300 East 200 South

PRICE

October 25, 2005 at 6:00 p.m.
County Commission Chambers, 120 East Main

PROVO

Oct 26, 2005 at 6:00 p.m.
Dixon Middle School, 750 West 200 North

CEDAR CITY

Oct 27, 2005 at 12:00 p.m.
Cedar City Chambers (Old Post Office), 10 North Main

ST GEORGE

October 27, 2005 at 6:00 p.m.
Washington County Commission Chambers, 197 East Tabernacle Street

We encourage all interested parties to make time to attend and give the task force the benefit of your insight. Microphones will be set up for attendees to offer comments and ask questions of task force members. **Every group and individual with an interest in Utah's tax structure should be actively engaged in this discussion. We have also included some talking points and would certainly encourage you to help us take the ULCT message to the legislature by attending and testifying at the meetings.**

Issue: Removal of the 1% local option sales tax and replacing it with property tax

Since most municipalities are heavily reliant upon the sales tax to cover the cost of providing most municipal services to both businesses and homes, a shift away from the 1% local option sales tax could have dramatic effects on the property tax rates that would be required to provide general municipal services. Shifting away from sales tax would also dramatically change a municipalities land-use decisions as it pertains to commercial, industrial and heavy use areas, where the property tax is currently unsustainable for those uses. This shift would also have negative implications for regional commercial centers and tourism centers, where the daytime and visiting populations will not be contributing to the cost of services that are being demanded. Such a shift in funding would certainly change the focus of many communities away from commerce and tourism and towards residential development. As a pinnacle to the governors economic development goals, deemphasizing tourism and commerce seems counterproductive to the goals set forth early in the tax reform effort. A diverse and

sustainable tax structure is just as important to local government as it is to the state of Utah. We would strongly oppose this change to the current local option sales tax.

Things to consider:

1. How would the necessary property tax increase be offset?

The current proposal suggests that the school district would have to lower their property tax proportionally to the necessary increase that would occur at the municipal and county level.

2. What about school districts with relatively low school property taxes, but with high local option sales tax?

That is a looming issue that would have to be dealt with – If this is a situation you face, please bring this up to the committee

3. What impact would this have on tourism in Utah?

It is unlikely that any community would promote local tourism (Sundance, Art's Festivals, Shakespearean Festivals, Golf, etc.) if the sales tax generated from such events did not help the city or town pay for the increased demand on services and burden to local residents.

4. What about regional employment centers?

Like tourism, having a large daytime population places significant demands on the local infrastructure that would now have to be paid for exclusively by property owners. This is a major issue.

Issue: 50/50 Distribution/Hold Harmless

The local option sales tax is municipal money and therefore any changes to the distribution formula should be initiated by the League as a whole. The ULCT supports retention of the current distribution formula. There was, however, an understanding that all cities should be on the same distribution formula. Therefore the ULCT also supported the elimination of the 1983 sales tax hold harmless provision that allows some municipalities to collect a portion of the sales tax at 100% point of sale. However, the membership would like the phase out done in such a fashion as to minimize the impact on affected cities.

Issue: Truth in Taxation Advertisement Changes

Cities support valid information being given to the public. However, the current ads are simply too complicated to provide meaningful information. The ad proposal suggested by the coalition of Cities, Counties, Special Districts and School Districts is the appropriate approach. Including references to percentages is particularly misleading because inevitably the public assumes that a change in percentage for a particular taxing entity is in fact a percentage change for the entire property tax bill.

Issue: Inflation Adjustment for Truth in Taxation

The state legislature is willing to take the revenue generated from inflation for those taxes that it uses – sales and income. However, it requires local governments that use the property tax to declare any additional revenue from property tax (other than actual new construction) to be labeled a “tax increase” and therefore subject to truth-in-taxation.

The current truth-in-taxation laws create a situation where local governments avoid making small adjustments to the property tax to cover inflation. The result is a system of “lurches” where any change in property tax is avoided until the situation becomes critical and then a large increase is imposed.

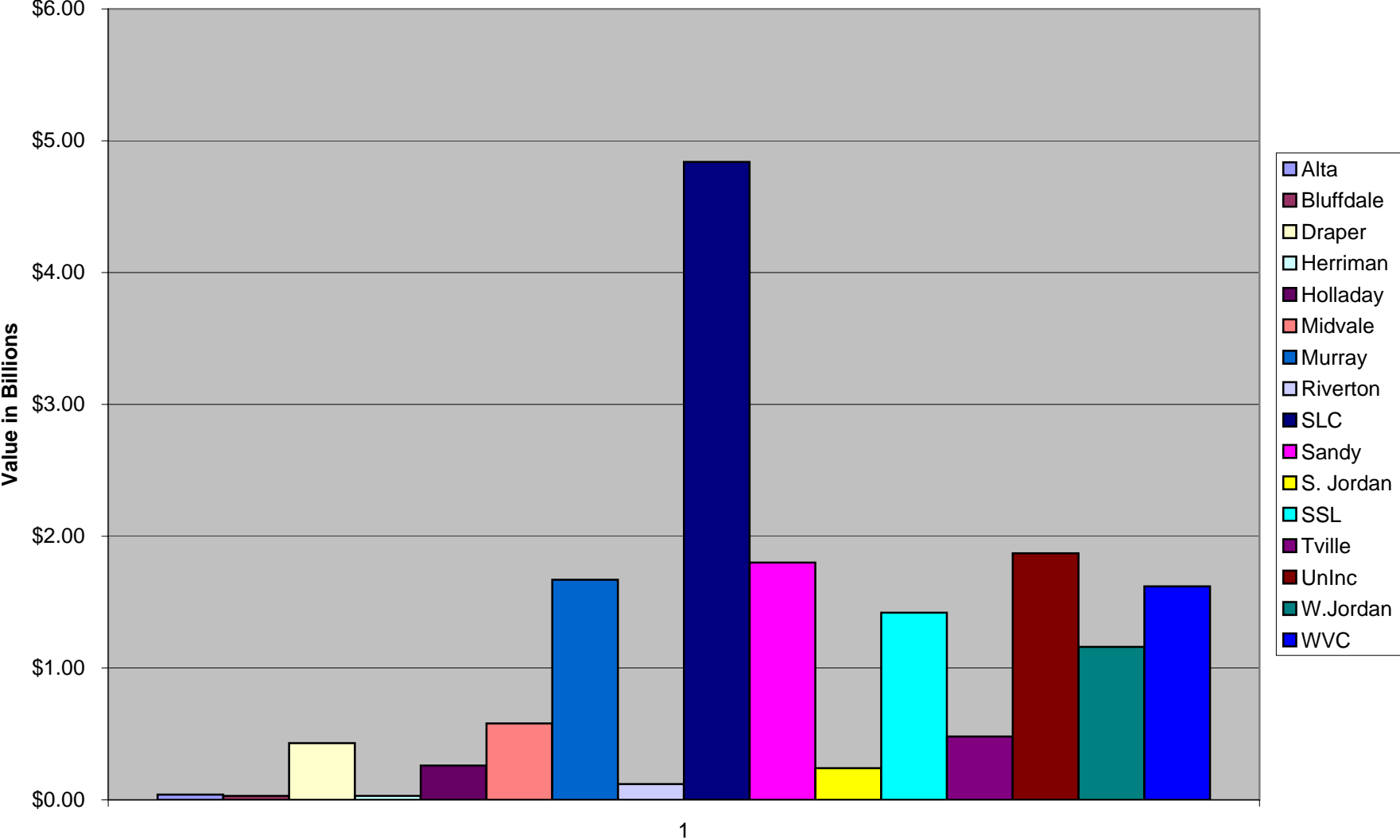
Issue: RDA

This past summer has seen the development of a comprehensive response to last session’s RDA statute changes. The ULCT RDA team has proposed a multifaceted approach that protects the essential characteristics of urban renewal but also provides for additional tools to aid in general community development. The proposal also eliminates those areas where prior city developments had received criticism.

In short, the ULCT recommendation on RDA’s would:

- (1) Provide tax increment financing for economic development, redevelopment and community development projects with defined standards, in each situation, as to how tax increment is attained and used.
- (2) Provide tools under the redevelopment concept for the assemblage of properties in order to remove blight and redevelop the area.
- (3) Redefine the statutory definition of blight to limit the current use of RDA’s to areas where physical blight is present.
- (4) Implement a “necessary and appropriate” analysis to any EDA or RDA project to ensure that tax increment financing is being use only in situations where without tax assistance the project would not occur.
- (5) Create a “Community Development” tool to allow municipalities to utilize the municipal portion of the sales and property tax as deemed appropriate by that municipality’s governing body and allow for tax increment financing on an “opt-in” basis.

2004 Sales Services Purchases in Salt Lake County



2004 Sales, Services, Purchases Leaders

