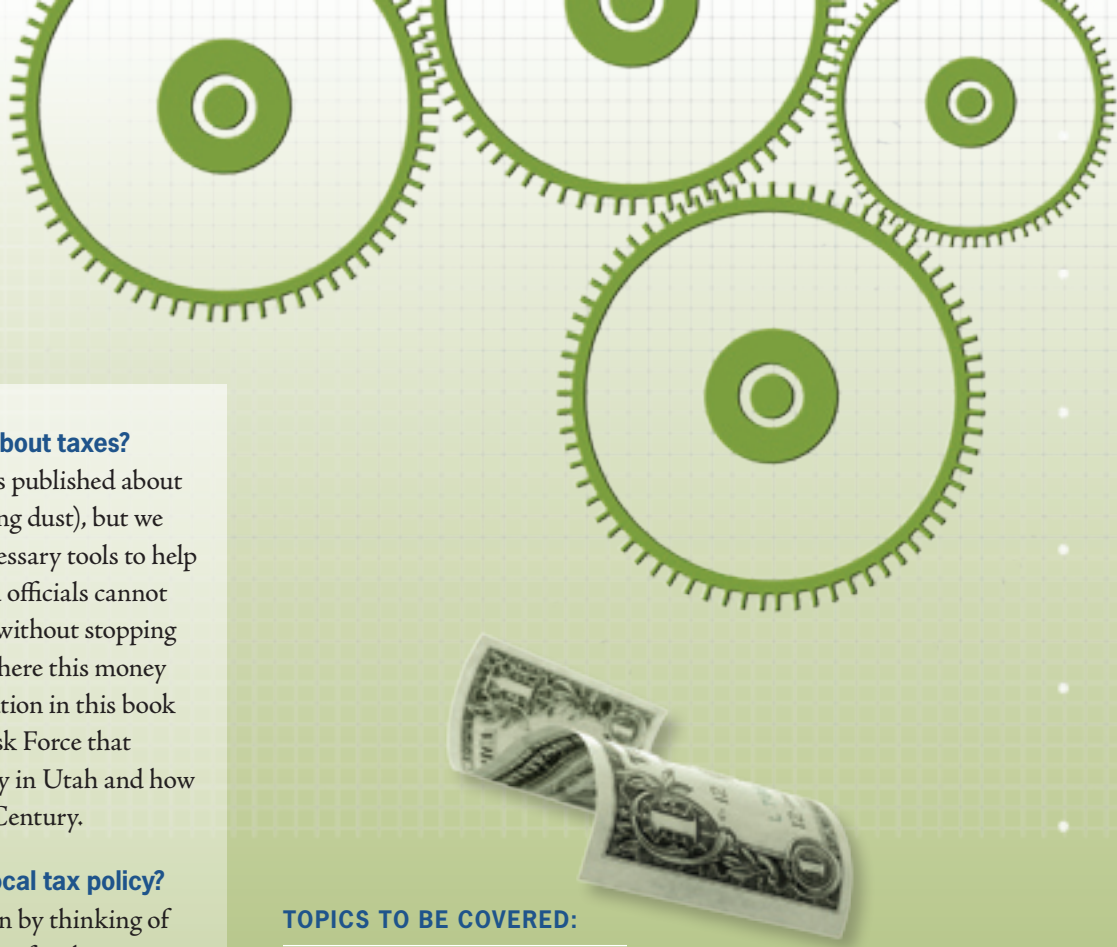


MAKING SENSE OF DOLLARS

A P R E V I E W





Why should anyone want to read about taxes?

True, there are a thousand books published about local government taxes (most collecting dust), but we believe this book will provide the necessary tools to help you through a budget season. Elected officials cannot expect to balance a budget each year without stopping and asking critical questions about where this money is coming from. Much of the information in this book stems from the 2005 ULCT Tax Task Force that addressed the issues of local tax policy in Utah and how will we finance our cities in the 21st Century.

Why is it important I understand local tax policy?

In response to this question begin by thinking of the services you work toward providing for the citizens of your community. Do citizens understand how roads are paid for or public safety is funded? Or do citizens understand how truth-in-taxation works during years of increasing property values? Citizens look to their local community leaders to answer these questions and many more. Understanding the basics of taxation helps us improve the entire policymaking process.

When will the entire book be available?

“Making Sense of Dollars” will be available January 21, 2009, at the ULCT Local Officials’ Day.

TOPICS TO BE COVERED:

- > Financing Local Government in the 21st Century
- > Sales Tax
- > Property Tax
- > Franchise Related Taxes
- > Transportation and Intergovernmental Revenue
- > Fees, licenses, and other sources of revenue
- > Debt Financing
- > Accountability “Giving Citizens Their Money’s Worth”

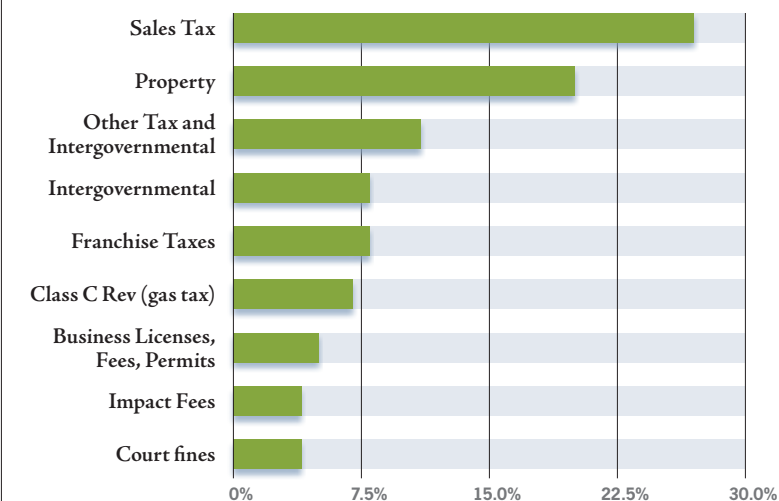
BACKGROUND to “Making Sense of Dollars”

This upcoming ULCT public finance book has three primary goals in mind: first, we endeavor to explain the nuances, in a simple manner, of how local taxes in Utah are collected and distributed; second, we will review the revenue structure of municipal finance in light of changing 21st century dynamics; and third, we hope to correct some misperceptions that many citizens (and elected officials) may have toward local taxes and fees. Within each of these goals we will explain the key policy questions related to taxation. In the end this book will serve as a finance primer for elected officials framing important policy discussions to be considered by local government staff.

In general, Utahns approve of the services they receive from their city and town government, and overall feel they get good value for their taxes. At the same time survey research indicates that for many citizens it is difficult to identify the taxes that pay for certain services. For example, **42 percent of Utahns do not know how police service is paid for** (16% thought income tax, 26% did not know).^[i] Income tax in Utah is a state collected tax dedicated entirely to public and higher education. This is just one example of the disconnect most citizens have between the taxes they pay and the services they receive. Local elected officials can begin to bridge this gap. This is important for a couple of key reasons: 1) citizens have a right to know where their taxes are being spent; and 2) most citizens use and enjoy municipal services, but fail to recognize which taxes continue to make these services available.

Utah’s local governments provide services, visible and unseen, that touch people daily and enhance Utahns’ quality of life. It is difficult, if not impossible, to think of going twenty-four hours without using at least one municipal service: police and fire protection, city parks,

Average Revenue Portfolio—Utah’s Cities and Towns



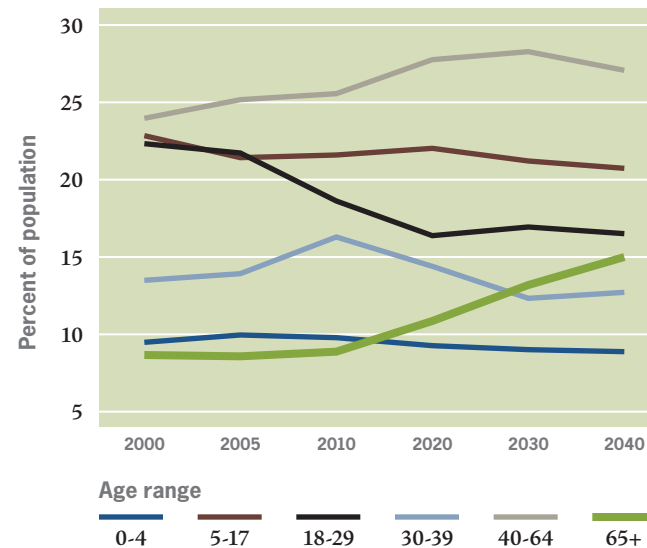
“Other Tax and Intergovernmental” includes: service charges, user fees, utility charges, special assessments

“Intergovernmental” includes: grants, liquor funds, general state or federal support

youth recreation, planning services, walking and jogging trails, city libraries, well-maintained streets, sidewalks, water or sewer utility services, or garbage removal. Yet each of these services create a cost. Utah’s elected officials consistently face the pressure of delivering these services while minimizing citizen and business tax burden. City and town officials must balance the community’s need for services and the tax burden placed on their constituents. So far Utah cities have been successful maintaining a high standard of service delivery, while also keeping taxes low. Utah’s local tax and fee burden currently ranks 40th in the nation.^[ii] Ninety-two percent of Utahns rate the quality of life in their community as good or excellent. Fifty-six percent rate the value they get from their city and town taxes as great or excellent.^[iii]

The onus of communicating the role of taxes often falls on the shoulders of local elected officials. Some could ask why does it matter if someone knows how income tax is spent versus

Utah Projected Population Growth, By Age



sales tax? We contend that an electorate that is well informed will enhance policymaking. Nearly every debate about the role of government requires a discussion of finances. The policy choices we make as municipal staff and elected officials impact the financial picture of our community. Are the fees we charge for services fair and adequate? Can we provide the services our community demands without significant tax increases? Do we jeopardize the dynamics of our community with enhanced commercial development? Should our community avoid or utilize truth-in-taxation to raise property taxes? All of these questions, and many more, are considered each year in city council chambers across the state. **We improve the local policymaking process by thoroughly reviewing the policy issues related to each tax.** In the end we hope this book is a valuable and clear resource to aid individuals in the local tax policy debate that will inevitably occur.

[i] ULCT commissioned Dan Jones & Associates Survey, August 2007. 604 statewide interviews \pm 4.0% margin of error.

[ii] Utah Foundation, *Utah's Tax Burden* published June 3, 2004.

[iii] ULCT Dan Jones & Associates Survey, August 2006. 615 statewide interviews \pm 4.0% margin of error.

Concerns for the 21st century

The changing economy and community demographics present unique fiscal challenges to city and towns.

National TREND: Demographic changes in city populations.

Utah TREND: Today the fastest growing demographic in Utah is the over 65 population.

FISCAL CHALLENGE: Changing service level needs and changing earning, owning, and buying profiles that impact both property and sales tax revenue.

National TREND: Growth of e-commerce and service oriented sector of the economy. According to *The State of Retailing Online 2007* Americans spent \$175 billion in online retail purchases.

Utah TREND: Most on-line purchases and service related businesses are not subject to Utah's sales tax.

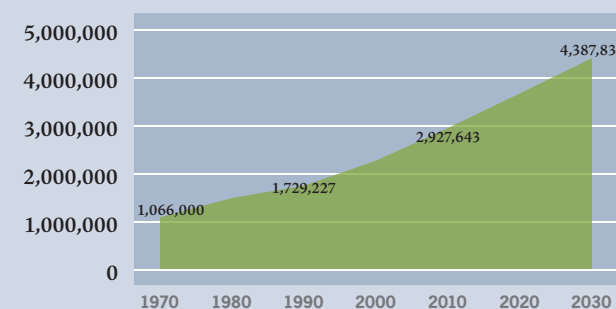
FISCAL CHALLENGE: Utah's financial structure was not initially designed to capture revenue from these sectors leading to an erosion of the sales tax base.

National TREND: Rapid growth, development, and/or sprawl.

Utah TREND: In recent years, Utah's communities have been the fastest growing in the nation.

FISCAL CHALLENGE: Extra demands placed on city services in order to keep up with fast-paced growth and development (roads, water, public improvements).

Utah's Statewide Population



SALES TAX

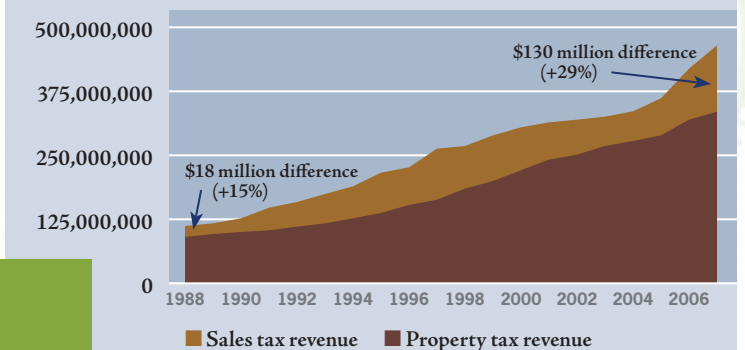
Sales tax leads the way as the most significant tax source for Utah cities

Sales tax is the primary tax revenue source for most of Utah's cities and towns. All cities and towns in Utah have adopted ordinances to impose a one percent local option sales tax. This one percent sales tax is distributed to municipalities based on a 50-50 split between point of sale (the jurisdiction where the sale occurred) and population (see figure 2, page 4). In addition to the one percent local option tax, some cities have assessed an additional sales tax rate (either authorized by state statute or voter approval).

There is no question that municipal sales tax dependency has increased in the past 20 to 30 years. For example, the graph (above right) illustrates that in 1988 cities collected nearly an even amount of both sales and property tax (\$18 million difference) compared to last year (FY2007) when sales tax generated \$130 million more than property tax.

While collective sales tax dependency has increased not every community is the same. The percent of sales tax dependency varies significantly depending on the type of community (see figure 1, page 4). In 2006, the ULCT conducted a cluster analysis to group cities together based on various demographic, economic, and

Municipal Sales Tax vs. Property Tax Revenue, 1988-2007



Policy Questions...

- > Are local option sales taxes being used to fund statewide projects?
- > Is everyone (state, counties, cities) looking to sales tax to solve funding problems?
- > Are Utah's cities and towns too reliant on sales tax?
- > Does sales tax affect land use economic development? How?
- > What are boutique sales taxes?
- > How much sales tax rate "headroom" exists?
- > How does Utah's sales tax rate compare to other states?
- > What is the average sales tax dependency for Utah cities and how does this impact revenue to maintain service costs?
- > What is exempt from sales tax?

financial characteristics. This cluster revealed 12 different groupings or clusters of cities: major population centers, commercial centers, high growth, residential transitioning, high income, urban edge, resort communities, NR/mining based, old established, traditional agriculture, small towns and capital city.

These groupings illustrate the range of sales tax dependency among Utah's cities and towns. Cities that are characterized as "commercial centers" generate on average around 60 percent of their tax revenue from sales tax (e.g., South Salt Lake, Murray). This is a big difference from the "high income" communities (e.g., Alpine, Farmington) who by contrast generate less than 40 percent of their tax revenue from sales tax. This chart simply illustrates that while cities and towns rely on virtually the same revenue sources the mix of these taxes can vary significantly.



Figure 1

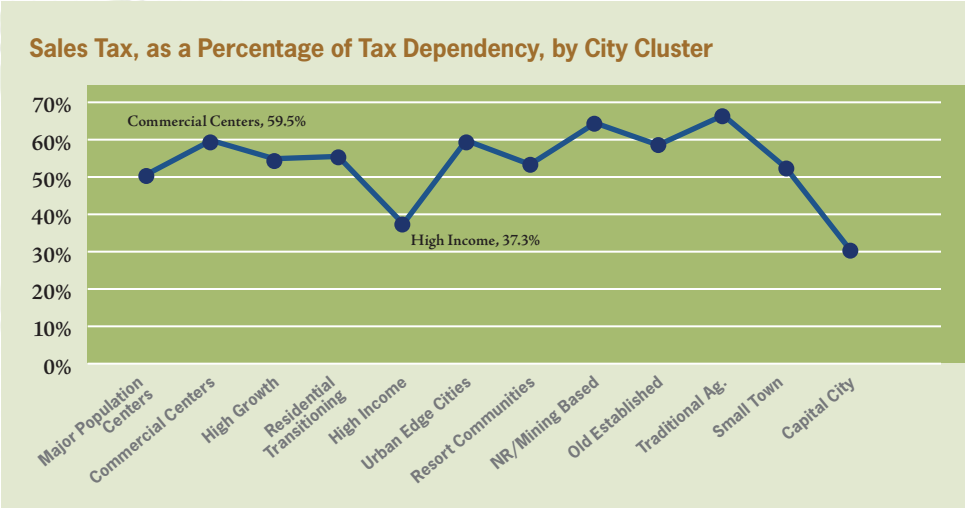
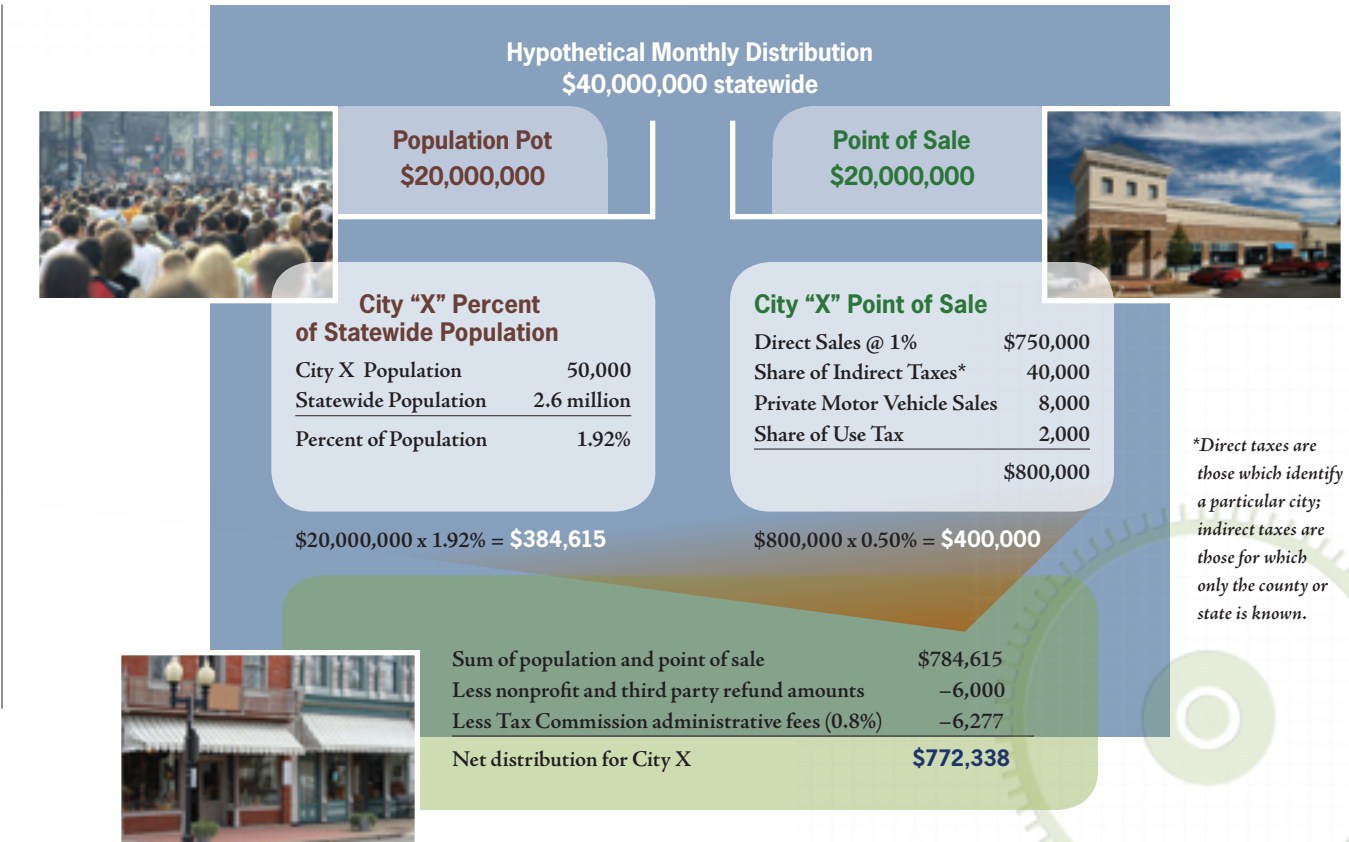


Figure 2

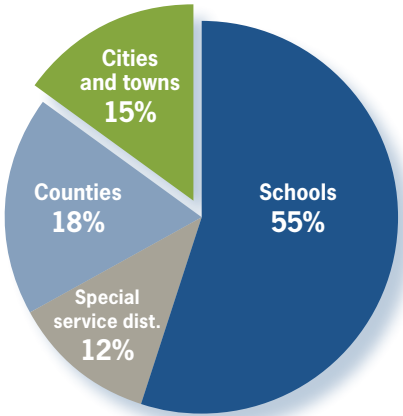
How is Sales Tax Distributed?



PROPERTY TAX

Property taxes are the oldest form of local government finance—but often the most scrutinized

Property Tax—Where Does the Money Go?



There is probably no tax that embodies as many contradictions as the ad valorem property tax. Of the primary taxes it is the oldest. It is also the tax most common among all of the states. Yet is also the tax that generates the most criticism and is usually considered the only tax that can be the basis of a “tax revolt.” Nonetheless, property tax is an important part of the financial structure of local governments.

Property tax remains an important revenue source for local governments (including school districts) for two reasons. First, property tax is, in economic terms, a stable source of revenue. The tax tends to lack the high-growth upside of sales tax or income tax (this fact is due somewhat to political limitations which restrict revenues from increases in values). However, **property tax generally tends to provide a more stable revenue base in economic downturns.** Second, the property tax base is largely immobile. This fact is essential for local governments which are challenged by tax bases that can easily be moved or avoid taxation.

PUBLIC PERCEPTION

- 40% of Utahns believe that the state government receives some property tax revenue.
- 25% of Utahns correctly stated that cities receive around 15% of the total property tax bill.
- Utahns are split when asked if their property tax bill is higher or lower than other states—27% said higher and 28% said lower.
- 28% of Utahns believe that property tax is their most hated tax (41% of Utahns over the age of 65 name property tax).

Policy Questions...

- > Everyone complains about the property tax, but it is still here...why?
- > How does the property tax really work? What are the nuts and bolts of this old tax?
- > What is truth-in-taxation? And how does it impact property tax revenue?
- > How does inflation impact property tax revenue?
- > How is property assessed?
- > To what extent should property tax play a role in financing local government?
- > What property is exempt?
- > Is there an alternative revenue source to property tax?
- > What is the history of property tax? Why is it one of the oldest revenue sources utilized by government?

The love/hate relationship of property tax

Why some hate...

Visible tax

No other tax requires a yearly lump-sum payment like property tax. This annual payment often appears to be a more significant sum than other taxes (i.e. sales tax).

Difficult to understand

The many different tax entities and rates applied to one property make the statement appear complicated.

Fairness concerns

Difficult for the elderly or the disabled on fixed incomes to pay property tax bill that may increase with property value.

Some Utahns look to adopt California's Proposition 13

Why some love...

Stable tax

The most predictable and stable revenue source available to government.

Allows local control

Property tax rates vary from city to city and allow communities to determine the appropriate rate for their individual community.

Old/reliable tax

Property tax is one of the oldest and most used forms of taxation, which makes it relatively easy to collect and administer.



Transportation, Fees, Franchise Taxes, and Intergovernmental Revenue

Many small communities dedicate over 25% of their entire budget to transportation expenses

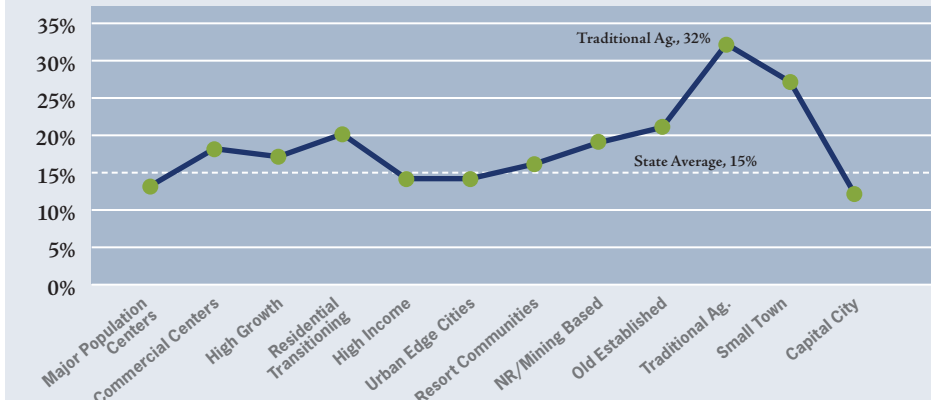
As population, material prices, and vehicle miles traveled continues to grow rapidly, the need for transportation systems to accommodate this growth continues to increase. Yet, the primary revenue source to address this issue is declining at an unprecedented rate. Because the motor fuel tax is tied to the number of gallons purchased, gasoline price hikes and vehicle efficiencies negate its ability to pay for necessary transportation projects. This convergence of vehicle efficiencies, stagnant revenue tools, increased system usage and increased population has required the creativity of state and local policymakers to address both present and anticipated funding shortfalls. But with any change in policy there are ramifications that cut both ways.

As many policymakers have begun to see the structural shortfalls of existing revenue sources, they have turned to other sources, with the major trend being local option sales tax authority for all new transportation capacity projects.

The diversity of Utah's cities are reflected in the adjacent graph. Nearly each city and town dedicates over

15 percent of their budget to transportation. However, a closer look illustrates that many small communities (below 5,000 in population) spend over a quarter of their budget on transportation.

Transportation Costs, as a Percentage of Total Budget, by City Cluster



B & C revenue not keeping pace with transportation costs

One of the major principles of taxation is maintaining an adequate stream of revenues. Revenues should match the increases in the local economy for which it represents. If revenues do not keep up with local economic growth, policymakers will be forced to come back to the table and raise tax rates, not a politically viable thing to do.

B & C road revenues to Utah's cities have not kept up with Utah's economy or other major revenue sources enacted to provide resources to for state and local governments. Between FY2001 and FY2007, B & C Road Tax revenues to Utah's cities rose from \$62.9 million to \$78.8 million, an increase of 25.2%.

Assessing property responsibilities

State Tax Commission

The constitution outlines three specific job requirements: (1) It is responsible for the overall administration of the tax laws of the state; (2) It has primary assessment responsibilities for centrally-assessed properties (mines, utilities, railroads); and (3) It serves as the State Board of Equalization for the administration of the property tax.

Board of Equalization

Each Utah county has a board of equalization which is composed of the county's governing body. Their responsibility is to hear appeals from the value placed on the property by the county

assessor to determine if the value placed on the property by the assessor is correct. Appeals from the county board of equalization go to the State Tax Commission which sits as the State Board of Equalization. Appeals from the Tax Commission may either go for a trail de novo with the district court or to the Utah State Supreme Court.

Mass Appraisal

It is physically impossible for a county assessor to conduct a fee appraisal (the complete appraisal generally associated with a mortgage) on all property located within a county every year. Therefore, various statistical tools are used to arrive at property values in each county.

Policy Questions...

> Should local transportation sales taxes be dedicated to new capacity projects?

> If local sales tax is used for statewide transportation projects how will local government address their own transportation needs?

> How should we pay for the maintenance of a growing transportation system?

> How closely should transportation revenue source mirror "user fees"?

PUBLIC PERCEPTION

12% of Utahns state that the gas tax is their most hated tax.

50% of Utahns state that 3/4 or more of a city's road construction and maintenance budget should be funded by a tax on gasoline.

IN MILLIONS	FY 2001	FY 2007	Percent Change
B & C Road Revenues	\$ 63	\$ 79	25.2%
Individual Income Tax	\$1,713	\$2,415	41.0%
Local Sales Tax	\$ 314	\$ 463	47.4%
Corporate Franchise Tax	\$ 174	\$ 415	138.0%

If we assume costs to maintain and build new city streets depend on city population growth and the price index for highways and streets construction, then revenues should have grown 49.8% in the same time frame.

B & C road revenue growth of 25.2% fell short of Utah’s economic growth as measured by Gross State Product in the same time period of 44.7%. B & C road revenues also did not grow as fast as other major revenue sources utilized to pay for state and local services. The 25.2% growth in B & C road revenues between FY2001 and FY2007 fell significantly short of the 41% growth in state individual income taxes, 47% growth in local sales taxes and 138% growth in corporate franchise taxes during the same time frame.

How do fees factor in as a revenue source?

Fees, in contrast to taxes, may generally be imposed by a city without legislative permission. For purposes of this discussion we have used the term “fee.” However, governments may label these charges as licenses, charges, and rates as well as fees. Nothing prohibits the legislature from imposing limitations on fees (and there are instances in which the legislature has done so). However, fees generally must be tied to a specific service and the amount of the fee must generally reflect the service received by the fee-payer. For that reason they are sometimes referred to as a “user fee.” In general, the fee-payer must be able to impact the amount of the fee by changing behavior. Water rates are an example of a fee. The charge is tied to a specific service, the amount charged is tied to

the water used, and the amount of the fee can be impacted by action taken by the user of the water. There has been a steady increase in the revenue cities obtain through a variety of charges and fees. Can this source keep growing? Should it? This is an important policy question for municipal officials.

There are often a number of fees or fee-like charges that a city may impose:

- Business license fees
- Building permit fees
- Impact fees
- Connection or plan check fees



PUBLIC PERCEPTION

If another tax or fee is used for road maintenance, should it be...?

- 39% vehicle registration fee
- 35% impact fee
- 9% state and local sales tax
- 7% none or don't know
- 6% other
- 3% property tax

If a revenue increase is necessary at your municipal level, would you prefer to have your property taxes raised or have a fee for service implemented?

- 70% implement a fee for service
- 21% raise property tax
- 5% don't know
- 3% neither
- 1% both

Telecommunications Tax

In 2002, the ULCT convened a major study effort to create a more uniform method of taxing the telephone services. The final result was the Municipal Telephone and Business License Tax (“telco tax”). This new structure did the following:

1. It treated the land line and cell phone industry equally. Both services were subject to the same tax with the same rate.
2. The tax base was broadened to include all services that were subject to the sales tax. (Prior to the new law the franchise base was different than the sales tax base.)
3. Administration, including auditing authority, was vested exclusively with the Utah State Tax Commission. The law also included the adoption of a nationally approved method to determine the location of cell phone use. In general, cell phone tax is based on the location of the billing address as defined by the 10 number zip codes.

The initial tax rate was set at 4%. This rate cap was originally estimated to be a revenue-neutral number to correspond to the prior cell phone and land line franchise tax. However, after a few years of operation, the legislature lowered the rate cap to 3.5% in 2007.

Policy Questions...

- > When does it make sense for a city or town to impose a municipal energy tax (MET) or telecommunications tax?
- > Why do we single out telco with a special tax?



“How large of a challenge do you consider each of the following trends and challenges for your city over the next five years?” (NLC 2004 survey)

- 79% intergovernmental financial changes
 - Cuts/limits in state and federal support, unfunded mandates, devolution of responsibility to local government
- 66% political changes
 - Public perception, public interest/trust
- 63% economic shifts
 - Shift from manufacturing to services, industry changes
- 57% demographic changes
 - Aging population, increased school-age population

Federal Budget—Intergovernmental Revenue

For most of us it is difficult to comprehend a budget in the trillions. Likewise, when discussion turns to the federal budget we often tune out. Yet, it is important for local officials to gain a sense of the federal system for a couple of reasons. First, there is a definite trickle-down effect of the federal budget. If federal aid is cut to states, states often respond by cutting aid to local jurisdictions. Second, the federal government can be (and has at times) been an important direct financing partner with cities and towns. The intergovernmental partnership that was an important component to municipal finance 50 years ago is unraveling. Cities are often the jurisdictions left “at the bottom of the fiscal food chain.”

According to a recent National League of Cities survey intergovernmental changes pose the largest future fiscal challenge to cities and towns. Since 1977, federal aid as a share of total city revenues has declined from 15 percent to 5 percent. Thirty years ago, 50 percent of the total federal aid to local governments was directed to cities and towns, this percentage has fallen around 10 percent. This is an important trend to follow throughout the 21st Century.



Utah League of Cities and Towns
50 South 600 East, Suite 150
Salt Lake City, Utah 84102



Phone 801-328-1601
Toll free 1-800-852-8528
Fax 801-531-1872
www.ulct.org

2007

Cluster Analysis of Utah's Cities and Towns



Utah League of Cities and Towns

50 South 600 East, Suite 150
Salt Lake City, UT 84102
(801)328-1601
www.ulct.org

April 2007



Cluster Analysis 2007

Utah League of Cities and Towns

April 2007

The mission of the Utah League of Cities and Towns (ULCT) has changed little since 1907. For one hundred years, ULCT has provided a strong, unified advocacy voice for Utah's municipalities. In addition, a key

HIGHLIGHTS

- This report clusters together all 243 Utah cities and towns.
- The final result is 11 clusters, with 1 outlying city (Salt Lake City).
- The clusters group cities and towns based on common characteristics across population, residential and commercial property, and tax revenue variables.
- 7 clusters are more urban in make-up (including Salt Lake alone), while 5 are primarily rural.

Contact ULCT for more information:
Utah League of Cities and Towns
50 South 600 East, Suite 150
Salt Lake City, UT 84109
801.328.1601
nabercrombie@ulct.org

purpose for ULCT is to present information and research regarding demographic and economic trends that potentially impact municipal public policy. Often this analysis requires grouping or clustering of cities. It is challenging to determine which variables should direct this grouping. Often grouping is dictated solely by population size or regional location. However, this surface grouping misses some of the more telling city dynamics. In an attempt to find a more accurate grouping, ULCT, in partnership with the Brigham Young University Romney Institute of Management, University of Utah Center for Public Policy & Administration (CPPA) and Utah State University, have clustered cities together based on demographic, financial, and economic characteristics.¹

How is clustering useful?

The clustering or grouping of cities provides a number of useful opportunities. First, this grouping will fine-tune fiscal policy analysis. For example, often ULCT is asked to identify the fiscal health of Utah's municipalities. The diversity of cities makes it virtually impossible to aggregate the financial health. For instance, the financial health of Utah's cities varies based on the differing levels of property and sales tax dependence.

However, a grouping of cities helps pinpoint what factors are contributing to the financial state for a number of cities that share a similar makeup. Thus, this clustering will enhance our understanding of tax dependency in different cities, and likewise our understanding of what implications this dependency creates.

Second, clustering will improve attempts to identify demographic or economic trends. Demographic changes affect Utah statewide, but this changing burden, or benefit, does not individually impact communities the same way. Identifying a number of descriptive characteristics for groups of cities will improve the policymaking discussion as we evaluate legislation that impacts a variety of policy issues. One size fits all policy solutions rarely work for Utah cities and the clustering will improve our ability to anticipate what policies will best suit different types of cities.

¹ The cluster analysis approach is similar to the methodology applied by the League of Minnesota Cities and the Washington Association of Cities. For more detail on the specific methodology or cluster outcomes for these states please visit these websites:
Minnesota: <http://www.lmnc.org/pdfs/ClusteringMinnesotaCities0803.pdf>
Washington: http://www.awcnet.org/stateofthecities/soc05/cluster_profiles.htm

Third, the clustering of cities lends itself to natural benchmarking or comparison partners. One benefit of clustering is bridging geographic and population divides. As shown in the 12 identified clusters (with the exception of Salt Lake City), cities cluster from various regions of the state. Cities and towns will often be better served comparing their services with cluster neighbors, rather than geographic neighbors. This clustering may also provide a unifying effect by tying communities together that previously saw little in common.

The variables used for clustering are:

- 2005 population
- Percent population change 2000-2005
- Household median income (2000 Census data)
- 2003 Primary residential land value
 - Per capita residential land value
- 2003 Commercial and industrial land value
 - Per capita commercial and industrial land value
- 2003 Property tax revenue
 - Per capita property tax revenue
- 2003 Sales tax revenue
 - Per capita sales tax revenue



Why these variables?

ULCT selected these variables in order to paint a demographic, fiscal, and economic picture for each city. Population is a key variable in determining size of city and overall potential services needed. Population change is an important variable indicating the changing character of a community and likewise the changing role of municipal government. Household median income indicates the economic nature of the community, as well as potential ability for residents to pay taxes. Residential land value and commercial land value are included in the analysis to differentiate the core makeup of the community -- commercial versus residential composition. These variables are also considered on a per capita basis. Finally, to frame the fiscal picture, 2005 property and sales tax revenue (two of three primary municipal tax revenue sources) are included for each city. Similar to the residential and commercial property values, the tax revenue data indicates the economic character of each community.

Cluster Analysis

The purpose of statistical clustering determines common traits across a variety of factors. This SPSS analysis grouped each city and town with like communities, within the framework of twelve distinct clusters. Salt Lake City remained the only outlying city not clustering with any like cities. This city stands alone as *cluster L* or simply as the *Capital City*. Of the twelve clusters, seven share a dominant urban dynamic, while the other five are primarily rural. Many of these clusters, both within the urban and rural description, cross geographical boundaries.

The figure below indicates the list of clusters falling within a larger categorization of urban and rural. However, this categorization cannot be limited to on or off the Wasatch Front. The high levels of population growth off the Wasatch Front are changing the urban structure of Utah. For example, a recent US Census Bureau report rated St. George City as the fastest growing metro area in the United States from April 2000 to July 2006.²

² U.S. Census Bureau, April 2007.



What are the clusters?

A. *Major Cities* (10 Cities)

These cities represent major economic and residential communities. These communities are older, established cities and together represent 30% of the entire state population. These cities have a much larger population density compared to the other clusters. The economies in these cities are diversified, offering a range of service-oriented professional jobs to manufacturing employment. In addition, most of these cities function as large retail hubs. Higher education institutions are also a unique economic factor shared by many of these cities

B. *Commercial Centers* (17 Cities)

The commercial property per capita (\$6,133) in these cities is second only to the major city cluster. These cities are diversified cities that have a larger population and function as both residential and commercial centers for their surrounding region. Many of these are communities that are growing at a modest rate. These cities largely have older established downtowns that have provided retail opportunities to neighboring communities for years.

C. *High Growth Communities* (10 Cities)

The incredible rate of growth from 2000 to 2005 is the primary variable linking these communities together. The overall household median income for these cities is also relatively high. Most of these high growth communities are newly incorporated cities that have changed dramatically in a short period of time. The economy in these cities varies significantly, however most have very low commercial sales and sales tax revenue.

D. *Residential Transitioning Communities* (33 Cities)

Low commercial property along with relatively high residential property value per capita cluster these communities together. Many of the residents of these communities commute to larger neighboring

cities. Traditionally these cities have a rural or agricultural heritage; however many in this cluster are now transitioning into urban outskirt communities with growing populations and moderately increasing commercial property.

E. *High Income Residential (20 Cities)*

These communities represent the highest median household incomes in the state of Utah. The income level, along with residential property tax value, are the two most significant variables tying these cities together. Most of these residents commute to a neighboring major city. Geographically this cluster is unique because of the Wasatch Front dominance, each city in this group except Oakley are along the Wasatch Front.

F. *Urban Edge Cities (12 Cities)*

This group represents a wide variance along most of the clustering variables. However, the one consistent factor is the close geographic proximity each of these cities share with a larger central city. This cluster is distinctive from the other clusters due to its high commercial and industrial property value, along with high sales tax revenue per capita. Overall these cities have a moderate population size and have experienced moderate growth since 2000. On average these communities have very low square mile land area and high population density.

G. *Resort Communities (6 Cities)*

These communities are identified by unique geographic location, proximity to either mountain ski resorts or National/State parks. These communities are all relatively small in population, but serve a much larger daytime population especially during heightened tourist seasons. Each of these communities currently assesses an additional 1.0% resort community sales tax. The cities in this cluster are grouped together for two primary reasons: high commercial and industrial property value and sales tax revenue per capita.

H. *Natural Resource/Mining Based Communities (26 Cities)*

Many of these communities are located across central Utah. In addition, these cities and towns have an economic history steeped in a mining or natural resource based industry. Overall these cities are smaller in population with stagnant population growth (overall average growth from 2000 to 2005 is 1.5%). These communities still have moderate commercial and industrial property value. Additionally, many share incorporation dates during WWI era when mining was critical to the Utah economy.

I. *Old Established Communities (19 Cities)*

One common characteristic tying together these cities and towns is their historic nature. The “youngest” community (Lewiston) in this cluster incorporated in 1921. A majority of these communities are also located in central Utah. Most of these communities experienced a slight decline in population between 2000 and 2005.

J. *Traditional Agricultural (30 Cities)*

This cluster represents the most geographically diverse grouping, ranging from cities in Iron or Washington County to Box Elder and Cache County. This cluster is unique from the other rural clusters due to their increasing populations. Unlike the old established communities (of similar size) these cities grew by an average of 11% from 2000 to 2005. Most of these cities are towns are traditional agricultural communities that are transitioning more toward a residential makeup. Many residents in these communities rely less on the agricultural economy, but are commuting to a neighboring economic or commercial center.

K. *Small Towns* (61 Cities)

These towns represent the unique and diverse small towns in Utah. Many of these towns are located in either Western or Central Utah. These towns have very little commercial and industrial property, representing the smallest per capita commercial land in the state. The population in these towns is stable -- either reporting slight decline or increase in the past five years.

L. *Capital City* (1 City)

Salt Lake City is the capital and most populated city in Utah. Salt Lake City is the economic headquarters for the Wasatch Front, providing a balance of industrial, service-oriented, professional, and business industries. Salt Lake City, known as the “Crossroads of the West” is also a key transportation hub for the state of Utah and the larger western Rocky Mountain region. For these reasons, Salt Lake City is an outlier that does not cluster with any other city.

Table 1: Description of each cluster

	Cluster Name	Description	No. of Cities	Example City
A	Major Cities	Largest population base, minimal growth, established communities, large commercial centers	10	Provo, St. George
B	Commercial Centers	Larger population, significant commercial and industrial regional centers, growing communities,	17	Cedar City, Logan
C	High Growth Communities	Communities with highest growth rates, high household income, low commercial	10	Cedar Hills, Syracuse
D	Residential Transitioning	Modest commercial property, increasing growth, many transitioning communities	33	Providence, Midway
E	High Income Residential	Highest median household income, moderate growth, low commercial	20	Farmington, Bountiful
F	Urban Edge Cities	High per capita commercial and industrial property, moderate population size and population growth	12	North Logan, South Ogden
G	Resort Communities	Low population, high commercial property, high per capita revenue	6	Park City, Alta
H	NR/Mining Based	Older, low growth rural communities, small commercial property	26	Duchesne, Castle Dale
I	Old Established Communities	Older communities, low or declining population, some commercial component	19	Escalante, Manti
J	Traditional Agricultural	Traditional agricultural communities, primarily residential with increasing population, some growing commercial element	30	Hyrum, Fillmore
K	Small Towns	Smallest population, older established communities with low or declining growth, low commercial property	61	Hatch, Scofield
L	Capital City	Economic center of the state	1	Salt Lake City

Demographics

Understanding demographic trends is essential to both policymaking and policy review. The demographics of Utah are especially unique compared to national averages. Utah currently has the highest fertility rate and the highest household size in the nation.³ In addition, Utah has the lowest median age, but maintains the third highest life expectancy in the nation.⁴ Utah overall is unique from the national average; however, there is significant demographic diversity locally. For example, table 2 indicates that some cities in Utah have nearly twice the population percentage of residents over the age of 64. This demographic diversity has implications to both municipal finance and services. In addition, due to the aging baby boomers and increasing life expectancy, the over 64 population is becoming a more significant percentage of the state's population. The aging boom is creating new challenges and opportunities for municipal government. The Utah Governor's Office of Planning and Budget predicts that by 2040 Utah's over 65 dependency ratio will double. This increase will be felt statewide, but will impact individual cities differently.

Table 2: Cluster Population Demographics

CLUSTER TYPE	Incorporation Data	Population % Growth 00-05	% Population under 5-17	% Population over 64
<i>Urban</i>				
Major Cities	1902	12.2%	22.0%	8.0%
Commercial Centers	1882	20.4%	22.4%	9.1%
High Growth	1963	194.4%	28.0%	4.2%
Residential Transitioning	1913	10.0%	26.3%	10.1%
High Income	1938	22.3%	27.8%	6.5%
Urban Edge Cities	1945	13.8%	24.3%	9.7%
Capital City	1851	-2.0%	15.7%	11.0%
<i>Rural</i>				
Resort Communities	1939	2.6%	16.8%	10.4%
NR/Mining Based	1912	1.5%	27.2%	10.4%
Old Established	1884	-2.1%	26.6%	11.9%
Traditional Ag.	1918	10.7%	26.3%	10.2%
Small Town	1932	-0.4%	24.4%	14.8%
Total Average	1915	23.6%	24.0%	9.7%

Source: 2000 U.S. Census Bureau; 2005 Population estimates Governor's Office of Planning and Budget

In 2006, Utah's population grew by 2.7% or by an increase of 67,000 new Utahns. The above table indicates the types of cities that are absorbing most of this growth. Projections indicate that Utah's population will continue to grow at near the same rate or higher. The population growth has largely occurred in booming suburbs, or 'boomburbs', where cities have grown by incredible portions in a short period of time. Most of these booming areas transition from once farmland to incredible residential neighborhoods.

³ 2007 Economic Report to the Governor (ERG). Utah Governor's Office of Planning and Budget.

⁴ 2007 ERG.

Economy

It is difficult to capture the economy of a city through a single variable. Often the economic industries are varied and complicated to quantify. However, a simple variable is overall commercial and industrial property value within a city. This number provides a general representation of the city's economy, without getting to the details of what type of services or professions occupy the commercial property. In addition, to the commercial and industrial land value sales tax revenue data indicates the amount of retail available in a city. See table 3 for the cluster averages across these variables.

Table 3: Economic Factors

CLUSTER TYPE	Commercial and Industrial Property	Commercial and Industrial Per Capita	Sales Tax Revenue	Sales Tax Revenue Per Capita
<i>Urban</i>				
Major Cities	\$912,407,721	\$11,773	\$12,727,315	\$165
Commercial Centers	\$249,280,237	\$10,599	\$3,617,223	\$165
High Growth	\$48,257,016	\$5,187	\$1,146,280	\$113
Residential Transitioning	\$7,880,196	\$4,120	\$211,389	\$104
High Income	\$82,195,543	\$3,732	\$1,544,002	\$90
Urban Edge Cities	\$95,738,690	\$13,959	\$1,445,081	\$256
Capital City	\$5,395,609,980	\$30,296	\$42,756,404	\$240
<i>Rural</i>				
Resort Communities	\$76,569,265	\$39,036	\$1,065,027	\$786
NR/Mining Based	\$9,680,462	\$3,623	\$271,195	\$120
Old Established	\$6,947,705	\$2,619	\$239,020	\$115
Traditional Ag.	\$10,819,791	\$5,018	\$265,215	\$111
Small Town	\$2,149,349	\$9,342	\$31,033	\$116
Total Average	\$574,794,663	\$11,609	\$5,443,265	\$198

Source: Utah Tax Commission, Utah League of Cities and Towns, Utah State Auditor

The overall economy of Utah has been incredibly strong the last three years. The strength of this economy is not limited to one industry or one region. In 2006, job growth in Utah was at 5.2%, the highest rate since the mid 1990s.⁵ Financial activities and professional or business services continue to lead all industries as a percent of gross domestic product. Around one third of the state GDP is a result of financial activity or professional service industries.⁶

Total construction value reached an all-time high statewide in 2006. In addition, mining and natural gas related jobs increased by 18.0% in 2006. Cash receipts from agricultural production also continue to increase. Agriculture cash receipts increased by 5.7% from 2004 to 2005 and economic forecasts predict continued growth. Tourism, another key economic industry to many communities, increased in 2006. Total spending by travelers and tourists increased to \$5.8 million in 2006, a 7.7% increase from 2005. All of these industries have strengthened state and municipal government.

⁵ 2007 ERG.

⁶ Source: U.S. Bureau of Economic Analysis

Residential

The residential makeup of a city is also significant in determining city types. Cities often balance the priorities of open space, affordable housing, and new development. Residential property indicates the character of community. The clustering analysis considered primary residential land and building value for each city. This analysis also considered the residential property value per capita for each community. Property tax revenue for 2005, aggregate and per capita, shapes the land and residential features of a city. This property tax number indicates both the residential and commercial value component. Salt Lake City and resort communities are especially high along these variables. Residential transitioning and traditional agricultural communities are the lowest per capita property tax generating cities. The natural resource/mining based communities have the lowest residential property value among the clusters.

Table 4: Residential Property Factors

CLUSTER TYPE	Primary Residential Property Value	Property Value Per Capita	Property Tax Revenue	Property Tax Revenue Per Capita
<i>Urban</i>				
Major Cities	\$1,743,796,191	\$22,287	\$6,094,930	\$77
Commercial Centers	\$435,554,653	\$17,853	\$1,548,705	\$60
High Growth	\$232,982,487	\$22,201	\$559,125	\$52
Residential Transitioning	\$52,589,283	\$24,284	\$108,293	\$46
High Income	\$416,325,016	\$29,481	\$1,012,286	\$64
Urban Edge Cities	\$163,504,271	\$21,605	\$493,664	\$58
Capital City	\$5,055,390,082	\$28,386	\$61,511,360	\$345
<i>Rural</i>				
Resort Communities	\$155,049,925	\$43,308	\$1,255,870	\$671
NR/Mining Based	\$21,981,073	\$11,567	\$105,694	\$53
Old Established	\$30,400,517	\$17,404	\$117,222	\$65
Traditional Ag.	\$40,388,453	\$16,029	\$125,289	\$46
Small Town	\$4,275,562	\$15,140	\$16,643	\$205
Total Average	\$696,019,793	\$22,462	\$6,037,964	\$145

Source: Utah Tax Commission, Utah League of Cities and Towns, Utah State Auditor

Residential properties accounted for nearly 70% of all new construction statewide. In 2006, construction activity for residential properties reached an all-time high of \$5.1 billion, a 9.4% increase from 2005.⁷ Residential homes are often divided into two groups: single family units and multifamily units. Single family units continue to make up most of the new residential development, outnumbering new multifamily units 3.6 to 1 (20,500 to 5,700).⁸ Sixty percent of all new residential growth occurred in Salt Lake, Utah, and Washington County. In 2006, the cities leading the way in new single family home construction were Lehi (1,649 new homes), South Jordan (1,088), St. George (1,078), Eagle Mountain (893), and Riverton (716).⁹ Affordable housing is becoming an increasingly important issue for municipal government. This issue is

⁷ Source: University of Utah, David Eccles School of Business, Bureau of Economic and Business Research (BEBR)

⁸ Source: 2007 Economic Report to the Governor, pg. 159.

⁹ BEBR Construction Information Database

especially significant in the Wasatch Front, where a once under-valued real estate market is beginning to catch-up in appreciation.

Summary

Each city and town in Utah is unique and diverse. The unique character of our cities is what makes Utah a great place to live. This high quality of life in Utah largely depends on the strength of statewide municipal government. No cluster or grouping is perfect. This ULCT analysis groups cities based on common characteristics across all variables, yet there are still some outliers within clusters. However, each of these clusters provides an interesting picture of city types in Utah. This picture is helpful in determining demographic and economic statewide trends. Primarily this clustering increases the ability to evaluate potential policy implications through a better understanding of common city compositions.

Methodology

The analytical methodology employed for this is a two-way cluster analysis in SPSS. Individual city name operated as the categorical variable. A predetermined set of clusters was specifically fixed at 12, after a trial run of 8 and 15 cluster analyses. The eleven used variables were standardized, none were weighted. The SPSS output provided a descriptive by cluster, cluster frequencies, and created a new cluster membership variables. Salt Lake City is the only Utah city that operated as a complete outlier and did not cluster with any other cities. ULCT staff reviewed cluster memberships and identified additional outliers within clusters. A small number of outlying cities were moved to a new cluster membership that appeared to represent a more broad and consistent grouping (this occurred for Springdale, Panguitch, Moab, and Vernal).

About the League

The Utah League of Cities and Towns (ULCT) initially was organized in 1907. ULCT serves 243 incorporated municipalities in the state of Utah. ULCT represents municipal government’s interests with a strong, unified voice at the state and federal levels and provides information, training, and technical assistance to local officials on municipal issues in order to create a greater public awareness and understanding of municipal responsibilities, governance, and administration.

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- JoAnn Cowan
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For more information contact:
Neil Abercrombie, ULCT Policy Analyst
nabercrombie@ulct.org
801.328.1601 (office phone)

Appendix A:

CLUSTER A: Major Cities

Layton
Murray
Ogden
Orem
Provo
Sandy
St. George
Taylorsville
West Jordan
West Valley City

CLUSTER B: Commercial Centers

American Fork
Brigham City
Cedar City
Clearfield City
Hurricane
Lehi
Logan
Midvale
Payson
Pleasant Grove
Roy
South Salt Lake
Spanish Fork
Springville
Tooele
Vernal
Washington

CLUSTER C: High Growth Communities

Cedar Hills
Centerville
Clinton
Eagle Mountain
Harrisville
Herriman
Lindon
Saratoga Springs
Syracuse
West Haven

CLUSTER D: Residential Transitioning

Amalga
Bear River

Cedar Fort
Charleston
Deweyville
Elwood
Francis
Garden City
Huntsville
Hyde Park
Ivins
Laketown
Leeds
Mantua
Mendon
Millville
Morgan
Paradise
Perry
Plain
Providence
River Heights
Salem
Santa Clara
Stockton
Sunset
Uintah
Wallsburg
Wellsville
West Bountiful
West Point
Willard

CLUSTER E: High Income Residential

Alpine
Bluffdale
Bountiful
Cottonwood Heights
Draper
Elk Ridge
Farmington
Fruit Heights
Highland
Holladay
Hooper
Kaysville
Mapleton
North Ogden
Oakley

Pleasant View
Riverton
South Jordan
South Weber
Woodland Hills

CLUSTER F: Urban Edge Cities

Farr West
Heber City
Marriott-Slaterville
Naples
North Logan
North Salt Lake
Riverdale
Smithfield
South Ogden
Tremonton
Washington Terrace
Woods Cross

CLUSTER G: Resort Communities

Alta
Brian Head
Moab
Panguitch
Park City
Springdale

CLUSTER H: Natural Resource/Mining Based

Blanding
Castle Dale
Cleveland
Duchesne
East Carbon
Enterprise
Eureka
Ferron
Gunnison
Helper
Hildale
Hinckley
Huntington
Levan
Minersville
Monticello
Myton
Oak City

Orangeville
Price
Roosevelt
Spring City
Wellington
Wendover

**CLUSTER I: Old Established
Communities**

Annabella
Aurora
Centerfield
Clarkston
Elsinore
Escalante
Fairview
Fountain Green
Garland
Lewiston
Manti
Monroe
Moronic
Mt. Pleasant
Newton
Parowan
Richfield
Richmond
Salina

**CLUSTER J: Traditional
Agricultural**

Ballard
Beaver
Coalville
Corinne
Delta
Enoch
Ephraim
Fillmore
Genola

Goshen
Grantsville
Green River
Henefer
Honeyville
Hyrum
Kamas
Kanab
La Verkin
Milford
Mona
Nephi
Nibley
Orderville
Redmond
Rush Valley
Santaquin
Toquerville

CLUSTER K: Small Towns

Altamont
Alton
Antimony
Bicknell
Big Water
Boulder
Cannonville
Castle Valley
Circleville
Clawson
Cornish
Elmo
Emery
Fayette
Fielding
Glendale
Glenwood
Hanksville
Hatch
Henrieville

Holden
Howell
Joseph
Junction
Kanarraville
Kanosh
Kingston
Koosharem
Leamington
Loa
Lyman
Lynndyl
Manila
Marysville
Mayfield
Meadow
New Harmony
Ophir
Paragonah
Plymouth
Portage
Randolph
Rockville
Rocky Ridge
Scipio
Scofield
Sigurd
Snowville Town
Sterling
Sunnyside
Tabiona
Torrey
Trenton
Tropic
Vernon
Vineyard
Virgin
Wales
Woodruff



The Heart of Utah's Business Beats Strong

by Lane Beattie, President and CEO, Salt Lake Chamber

I have a friend who recently suffered a heart attack. For most of his adult life he wasn't the model of fitness by any standard—he had some unhealthy habits and put himself at risk with some overall bad choices. When he felt the symptoms he went to the emergency room and the doctors worked to stop the heart attack and get things running again as they should. Thankfully, he survived but the road ahead is long and likely to be very difficult requiring changes to his lifestyle and overall attitude towards his health. Things will never be the same.

Over the last few days, I've watched with great interest as our nation deals with its own financial heart attack. I notice how similar the financial situation is to the one in which my friend found himself. Congress has acted to stop the heart attack but the road to recovery will require some fundamental changes and improvements. We should learn from this and move forward. How we got to this point is important but what we do to fix the problem and prevent a reoccurrence is even more important.

These are tough times that require tough decisions.

Here in Utah, the situation is actually much better than throughout the rest of the country. When times are tough, it always seems like the sky is falling but the economy bounces back, it's just a matter of how deep we fall before we recover.

The magic of markets is that they correct.

The choice that congress faced in voting on the stimulus bill is to make this a shorter, less severe recession by doing something or do nothing and let it run deeper and longer.

From my office I have a nice view of downtown Salt Lake City. With a quick glance upward from my desk I see three of the biggest buildings in our skyline adorned with the names of some of the strongest members of our banking community: Chase, Wells Fargo and Zions. Thankfully, these and other local banks, which can serve as an unofficial barometer of our local economy, have adhered to solid banking principles and avoided the sub-prime lending mess that has been the ruin of other banks like IndyMac and Washington Mutual.

Utah is up to the challenge.

Recently Forbes magazine rated Salt Lake City as one of the nation's most recession-proof cities. We are better positioned than the rest of the country to face a nationwide economic downturn. Economists

will tell you we have plenty of eggs in our basket. Some economies are dependent on a few major industries; Utah has many. We benefit from employment in tourism (which is about to hit its peak season when the ski resorts open), defense, high-tech, energy, manufacturing, construction and finance. When one or more of these sectors struggles, as is the case now, the economy overall is boosted by the stronger, higher performing sectors.

It's no secret, housing and residential construction have been the first industries to suffer locally, losing approximately 15,000 jobs. Two months ago, the Salt Lake Chamber led a campaign to boost home sales in conjunction with the Housing and Economic Recovery Act passed by Congress. The goal was simply to make sure Utah gets its piece of the pie by encouraging those who have not owned a home in the last three years to take advantage of a high volume of inventory, low interest rates and the available \$7,500 tax credit.

In addition, I encouraged the Chamber membership to bring its money home where possible and prudent. I wasn't suggesting they stash it in a mattress or bury it in the back yard, but taking money out of the market during volatile times and infusing it into the local market by depositing in a local bank can be a great benefit to business, families and individuals right here in Utah. The fact is, deposits are up in our state. We have good capital and, relatively speaking, we're in a good spot. Now that the FDIC insures deposits up to \$250,000, there is an even better opportunity for us to safely stimulate local development.

I am confident our local economy will weather the storm we face as a nation. We still out-pace the rest of the nation in key categories. Our unemployment rate is at 3.7 percent almost 2.5 percent lower than the national number. In August our state economy grew a modest 0.3 percent; compare that to -0.3 percent national rate and you can see how even small growth is the exception, not the norm. We've made great strides in transportation and downtown Salt Lake City is decorated with construction cranes—the mascot of progress in commercial construction.

As a country, our financial system was primed for a heart attack, much like my friend. Here in Utah we're more like the younger, athletic individual that suffers a minor heart attack. We'll feel the effect—but we'll bounce back and enjoy a bright future.

Credit may be the lifeblood of the economy but confidence and preparation are key when facing less-certain times.

The heart of Utah's financial system is strong.