



# Property Taxes in Utah

## WHY TAXES ARE INCREASING

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September 1, 2022

### Background

#### Truth in Taxation Explained

- Utah law requires property tax rates to reset each year to hit revenue targets. This prevents revenues from unnecessarily flowing to government simply because property values increased.
- The new property tax rate is calculated to generate the same amount of revenue as it did last year.
- Taxes on new buildings (growth) is added on top, allowing revenues to grow.
- If a local government needs more money than the certified tax rate will provide, it must go through truth in taxation hearings to increase the tax rate.

- **Example:**

Last year in Joe City the total value of all property was \$1m. Its property tax rate was 1%, which generated \$10,000.

This year, Joe City's total property value doubled to \$2m. But truth in taxation only allows it to generate the same revenue as last year - \$10,000. Because property values increased, the tax rate this year is automatically decreased to 0.5% to generate \$10,000.

In addition, a new car dealership was built in the city last year. So, in addition to the normal \$10,000, Joe City will also receive whatever new revenue it collects from property taxes on that dealership.

Next year, Joe City knows it will need more revenue to replace its aging water treatment plant, so it plans to conduct a truth in taxation hearing to raise the rate back up to 1% to generate \$20,000.

#### Who Takes the Most Property Tax?

- School Districts: 57%
- Counties: 18%
- Cities and Towns: 13%
- Special Service Districts 12%

### Four Reasons Why Property Taxes are Going Up

Truth in Taxation processes would normally mean that you should pay about the same in property taxes each year, but several factors at play right now are increasing property taxes:

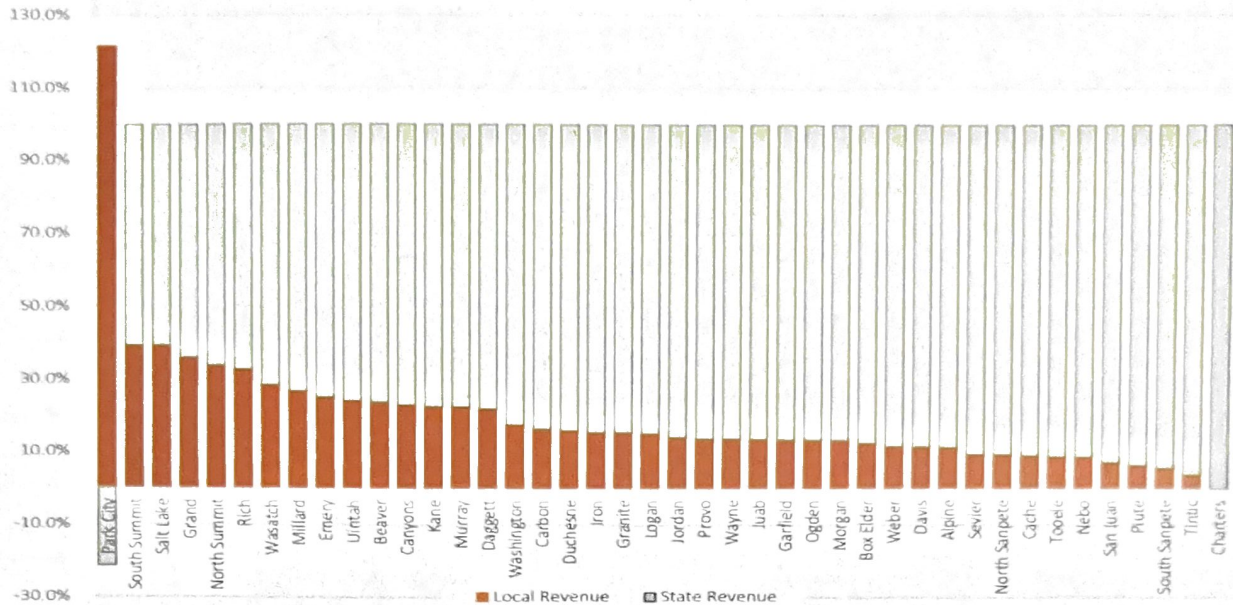
#### Reason 1: Local Governments Raising Taxes

A record number of local governments are going through the Truth in Taxation process right now to force an increase in property tax rates. This phenomenon is induced by inflation and local governments can't get by with the same revenues they used to. They are being forced to raise rates to make ends meet.

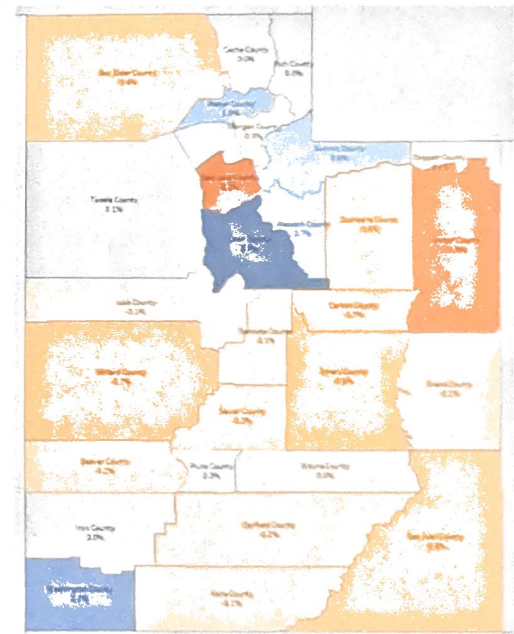
#### Reason 2: School Property Tax Equalization

- Most public education funds come from the state from income taxes.
- But the state requires school districts to have some skin in the game to receive those income tax dollars. It requires local school districts to charge a "basic rate" of property tax to contribute to their schools. The "basic rate" is the same statewide, so a \$2m mansion in Park City has the same *rate* as a townhome in Knab.
- The "basic rate" does not generate enough revenue to cover the basic costs of education in any school district except in Park City, so the Legislature funds the balance of those basic costs with income tax revenues (see chart below for each district).

Minimum School Program: Basic School Program Equalization  
 Percent of State and Local Revenues Contributing to Total WPU Cost by Local Education Agency  
 Charter Schools Totaled | Example



- Property values have risen faster in some areas of the state than others. Areas with relatively higher property value growth will pay relatively more in property tax than areas with relatively lower property value growth. Even though the basic rate is usually reset each year to hit a statewide revenue target, the same rate applies statewide and therefore affects higher value properties more significantly.
- This annual shifting has been magnified by extreme changes in property tax values in some areas. (Especially Utah, Washington, Summit, and Wasatch Counties).



**Reason 3: Freezing Basic Rate Under 2018 H.B. 293**

- Normally the school district’s “basic rate” is reset each year to hit a statewide revenue target.
- But over time the Legislature has put more and more income tax into education. That meant local districts have had to contribute less and less to meet basic school needs.
- As a result, local school districts’ “basic rate” has reset lower and lower over years, resulting in a lower share of funds from local districts.
- 2018 H.B. 293 stopped the basic rate from resetting lower and froze it at 2018 levels. This ensured that, even when the Legislature pumps more funding into education, those gains are not undercut by ever-decreasing local basic rates. This can, however, result in higher property taxes.
- This freeze will sunset after FY 23 and rates will begin to rebalance lower each year that property values increase.

**Reason 4: Indexing Property Taxes to Legislature’s Funding Under 2018 H.B. 293**

- 2018 H.B. 293 required local districts to put more skin in the game when the Legislature put more skin in the game.
- It requires a school district’s to increase their “basic rate” when the Legislature gives schools more money. Schools can use the resulting revenues flexibly for teacher salaries and student support under the Teacher and Student Success Account (TSSA).