

City Council Staff Report



MEETING DATE: 06/01/2021

SUBJECT: Truth in Taxation Public Hearing, Property Tax Increase for FY 21-22 Budget

RESPONSIBLE: Wesley Bingham, Finance Manager

DEPARTMENT: Administration

STRATEGIC RELEVANCE: Necessary Administrative Action

SUMMARY

During the May 4th City Council Meeting, staff was instructed to move forward with a ten percent property tax increase. Staff has prepared this staff report to briefly explain what a ten-percent property tax increase would mean to the typical taxpayer, describe the next steps in the truth in taxation process, and schedule the truth in taxation public hearing date.

RECOMMENDATION

Consider the truth in taxation process, confirm a 10% property tax rate increase and set a public hearing date for the truth in taxation hearing.

BACKGROUND

Minimal Property Tax Increases over the last 25 years

The last time Heber City raised property taxes was Fiscal Year 2014-2015 (the certified tax rate system makes accessing historical data on property tax changes easily accessible back to 1997). Property taxes were increased in 14/15 by 32.39% to cover the approximate \$280,000 in annual debt payment on the public safety building bond. Prior to that, property taxes were raised in FY 2010-2011 with a 4.11% increase, resulting in \$30,000 in additional revenue annually. These two increases are the only two increases in the certified tax rate system dating back to 1997.

DISCUSSION

The Certified Tax Rate System in Utah for Property Taxes

Utah's property tax rate system is set up to guarantee the prior year's property tax revenue plus growth. In more simple terms, assuming that there was no growth in the current year, there would be no property tax revenue increase or decrease. The certified tax rate would increase or decrease based on the change in assessed value. If average property values increased, then the certified tax rate would

decrease, resulting in the same revenue. If average property values decreased, the certified rate would increase, resulting in the same revenue. Included below is an examples using the same piece of property.

Property Tax Rate Examples

Year 1

Taxable Property Value	Certified Tax Rate		Property Tax Revenue
\$500,000	X	.001013	= \$506.50

Year 2 Scenario A

Average Property Values decrease, higher certified rate

\$475,000	X	.001066	= \$506.50
-----------	---	---------	------------

Year 2 Scenario B

Average Property Values increase, lower certified rate

\$675,000	X	.0007504	= \$506.50
-----------	---	----------	------------

As presented above, if there were no growth, the resulting property tax revenue would be the same.

Council Action required on property tax to address inflation

The Truth in Taxation requirements of holding a public meeting and Council formally taking action is the only way to address inflationary impacts on the property tax revenue. Exhibit D includes the the required truth in taxation steps for approving a property tax increase. The certified tax rate system allows Cities to maintain the prior year's revenue plus growth. However, the tax base from the preceding year would generate the same amount of tax every year after that, without action by the Council. Hence over time, the revenue purchasing power is eroded with inflation.

Ten percent (10%) increase in the certified property tax rate

Displayed in the table below is the impact of a 10% property tax increase on both a private residence and a commercial property. A 10% increase results in a \$27 increase in property taxes on a residential property with a market value of \$500,000. The same increase results in a \$50 increase on a commercial property or a 2nd home.

The overall increase in property taxes will, in part, be based upon new growth. Staff has prepared a property tax estimate through the certified tax rate system with anticipated new growth of \$105,479. The increase of new growth of \$105,479 is based on the average new growth over the past five years.

Last year's revenue was \$1,728,198. With new growth of \$105,479, our property tax revenue before a property tax increase would be \$1,833,302. With a new millage rate of .0011143 (2020 Millage Rate .001013*1.10= .0011143), it is estimated that our property tax revenue will be \$2,008,160. The assessed value and new growth are currently unknown. The County assessor will release property assessments between the first and middle of June, including the new growth figure. The County auditor will also release the certified tax rate around the middle of June.

		Market Value	Residential Exemption	Taxable Value	Certified Tax Rate	Property Tax
Current Rate						
	Residence	\$ 500,000	\$ 225,000	\$ 275,000	0.001013	\$ 279
	Commercial	\$ 500,000	-	\$ 500,000	0.001013	\$ 507
Increase of 10.0%						
	Residence	\$ 500,000	\$ 225,000	\$ 275,000	0.0011143	\$ 306
	Commercial	\$ 500,000	-	\$ 500,000	0.0011143	\$ 557

Increased reliance on sales tax revenues

In fiscal year 2015-2016, the sales tax revenue made up 38.79% of general fund revenues. An increased reliance on sales tax to fund general fund activities has increased. In FY 21/22, the budgeted percentage increases to 46.46%. The use of sales tax has been trending upward for the last several years, as displayed in the graph in Exhibit B titled "Growing Concern: Increased Reliance on Sales Tax."

Impact of small property tax inflationary increases on revenues

See exhibit C "small inflationary Increases have a significant impact" to see the effect of small inflationary increases over time. As discussed in the May 4th City Council meeting, even minor increases such as small inflationary increases over time amount to significant amounts. A 1.5% increase would amount to \$28,500 every year from this point into the future.

Truth in Taxation Hearing

Utah Code Section 59-2-919(8)(b)(i) states:

- (b) (i) A public hearing described in Subsection (3)(a)(v) or (4)(b) shall be:
 - (A) open to the public; and

- (B) held at a meeting of the taxing entity with no items on the agenda other than discussion and action on the taxing entity's intent to levy a tax rate that exceeds the taxing entity's certified tax rate, the taxing entity's budget, a local district's or special service district's fee implementation or increase, or a combination of these items.

The City should hold the meeting outside of a regularly scheduled City Council meeting and address this public hearing and take action on the potential property tax increase.

Option to adopt budget without property tax increase

Should council decide that they prefer not to do a property tax increase staff will bring the budget back for adoption on June 15th. If council decides to move in the direction of no property tax increase staff will bring forward a balanced budget with additional use of surplus.

Staff seeks confirmation to move forward with hiring and COLA increases effective July 1st should council move in the direction of a truth in taxation hearing

FISCAL IMPACT

Approximately \$175,000 in additional property tax revenue based on the anticipated property tax increase of 10%.

CONCLUSION

Staff recommends that Council hold truth in taxation public hearing on Thursday August 12th, 2021 at 7PM and provide direction on Hiring starting July 1st as well as starting the COLA effective the first full pay period in July.

CONTRACT ACCOUNTABILITY

Department: Administration

Staff Member: Wesley Bingham, Finance Manager

EXHIBITS

- A. Estimate of Property Taxes [Pages 1]
- B. Growing Concern: Increased Reliance on Sales Tax [Pages 2]
- C. Small Inflationary Increases have a significant impact [Pages 3]
- D. Fiscal Year Entity Property Tax Increase Requirements [Pages 4]