MURRAY
CITY COUNCIL

MURRAY CITY MUNICIPAL COUNCIL
COMMITTEE OF THE WHOLE

The Murray City Municipal Council met as a Committee of the Whole on Tuesday, September 6, 2011, in the Murray City Center, Conference Room #107, 5025 South State Street, Murray Utah.

Members in Attendance:

Jim Brass	Council Chair
Darren V. Stam	Council Member
Jared A. Shaver	Council Member
Krista K. Dunn	Council Member

Members Excused:

Jeff Dredge	Council Vice Chair

Others in Attendance:

Michael D. Wagstaff	Council Executive Director
Dan Snarr	Mayor
Jan Wells	Mayor's Chief of Staff
Frank Nakamura	City Attorney
Janet M. Lopez	Council Office
Pat Wilson	Finance Director
George C. Katz	Citizen
Sally A. Hoffelmeyer-Katz	Citizen
Jennifer Brass	Citizen
Tim Tingey	ADS Director
Jim Harland	Citizen
LaMar Sayer	State Tax Commission
Jennifer Combe	State Tax Commission

Chairman Brass called the Committee of the Whole meeting to order at 5:34 p.m. and welcomed those in attendance.

Minutes

Mr. Brass asked for corrections or action on the minutes from the Committee of the Whole meeting held on August 23, 2011. Ms. Dunn moved approval as written. Mr. Shaver seconded and the motion was approved 4-0.

Business Item #1: **State Property Tax Discussion – Pat Wilson, LaMar Sayer**

Ms. Wilson stated that Mr. Sayer was in attendance with a presentation that would help explain the tax rates and collection on property taxes.

Mr. Brass explained that in an earlier budget discussion he had made the comment that when redevelopment areas were finished the City would have more property tax income. Others stated that it did not occur that way. He does understand that if the value of his home increases it does not mean that Murray collects more property tax. The levy goes down to adjust for the higher value, keeping the tax collection the same. He always thought that new buildings created greater tax revenue, Mr. Brass added.

Mr. Sayer had his assistant Jennifer Combe present to operate the power point and they distributed a packet of information.

The certified tax rate is a confusing term which is used in two ways. The Tax Commission is charged with certifying tax rates, which makes sure they are all correct and it is done in September each year. The county auditor is required to calculate the certified tax rate. That is done, by statute, by June 8.

The certified tax rate is that tax rate that will achieve last year's budgeted revenues plus any new growth. It insures that an entity takes in at least what it did the previous year and if there are new bricks and mortar revenue associated with that new construction is provided, Mr. Sayer explained.

Mr. Brass clarified that for the new bricks and mortar the city gets more revenue.

Detailing the process, Mr. Sayer, said the simple formula is the revenue divided by the values gives the tax rate. It is a six decimal number, not called a mill levy anymore. It comes from the previous year's revenues and this year's value.

Values are adjusted by a couple of things. One is RDA areas. These values are backed out because the entity gets no money from that. The RDA gets money but the entity does not. If it was left in then the tax rate would go down and there would not be enough money to go around, Mr. Sayer stressed.

Then the value is adjusted for a three year average BOE adjustment. The BOE is the Board of Equalization and the county sits as this board for those taxpayers who appeal values because they feel their values are too high. If the commission agrees, it may adjust the value and, on average, the tax commission knows a certain amount of value will be adjusted down from the time tax rates are calculated to the time they are charged. Basically those people who do not appeal values pay a higher tax to compensate for those who do appeal.

There is another adjustment for a five year collection ratio. The tax commission knows that a percentage of residents will not pay the property tax, some because they choose not to pay and others because the county has granted some type of exemption. Veterans, blind, circuit breaker and indigent are some exemptions. This is lost value that must be compensated for or the entity loses revenue. The values are lowered by the five year average. Statewide it is in the mid to low ninety percent.

Then new growth is backed out. New growth is a calculation. It is not ten new houses at a value of $250,000 each making $2.5 million. It is a net number. Mr. Sayer used a pig farm analogy to explain this concept. In Beaver there is a marvelous pig farm worth $50 million. Across the county there is a new subdivision worth $50 million. The county is excited to have the new subdivision with $50 million of new growth. On December 31, the pig farm burns down. The loss of the pig farm decreases the value of the property and this loss offsets the gain of the new growth from the subdivision. Changes downward in other value types offsets new growth. It is a convoluted calculation and difficult to explain.

Mr. Sayer remarked that the growth becomes part of the base for future years. The decrease in the base values will not affect revenue as long as it is reappraisal.

Mr. Brass stated that the City is expecting a multistory office building and perhaps a hotel that are not in RDAs. He asked if that would be growth. Mr. Sayer confirmed that. Mr. Shaver asked about store expansion at Fashion Place Mall. Mr. Sayer said that new bricks and mortar should be new growth. Every January 1 the assessor appraises what the value is and so as things change every year there should be some sign of that increased growth.

Mr. Brass noted that Murray lives and dies by sales tax, more than we care to. The idea is to shift some of that revenue to a better mix of buildings to live more off of property tax than sales tax, without raising property tax. Ideally this would occur through growth. If it were not true, as he was told, why would the City want to build something and provide services if there were not a taxable gain?

Mr. Shaver asked if the Board of Equalization (BOE) is for individual property owners or for a city. Mr. Sayer said that he would answer that cautiously, saying that typically it is between the assessor and taxpayer. Others are only go-betweens. He said that if he were a city, and he watched his values and saw that Fashion Place Mall were going up for an appeal, he would watch that closely to see if he could file a “friends of the appeal” to defend the values. On the state level the counties may attempt to defend values. Counties often start the process with an appeal because they think the values are too low.

Mr. Sayer showed a simple analogy of values. There was a community with ten homes and one business. The appraisal was a total of $2.34 million. The city budget was $5,000. You would divide the city’s budget by the value to arrive at the tax rate. The next slide showed what each person would pay in taxes by multiplying the property value by the tax rate. The following year the properties are reappraised to a value of $2.6 million. Dividing that into the city’s budget of $5,000 lowers the tax rate. Therefore, the home owners pay the same amount in taxes. The reality of that happening is pretty slim, Mr. Sayer commented. More than likely, with the reappraisal process each home varies up or down by a small amount. Then some taxes will go up and some will go down. A taxpayer may complain that their property value went down; however, the tax amount went up. This is how the system works. The city continues to collect the same amount in taxes.

Mr. Sayer offered to talk with any taxpayers to explain the process and how values and taxes are determined. He can get people on line now and show them exactly what is happening to values.

Mr. Sayer showed an exhibit that detailed if a city kept the previous year tax rate with an increase in property value then each taxpayer would pay a greater amount of tax. This would amount to a budgeted revenue increase. It is hard for people to perceive that keeping the same tax rate is raising the taxes. A few years earlier the Murray City School District put an advertisement next to their Truth in Taxation statement saying that if your taxes are going up it is the assessor's fault, not ours because we used the same tax rate as last year.

Mr. Sayer addressed how new growth factors in. Using the previous community example, two new houses have been added for a total of $500,000 in value. All other values remain flat. The overall total value goes to $3.1 million. The new growth value is then backed out and the calculation for the tax rate is based on the other property values. Once the tax rate is multiplied by the new growth, new revenue is created for the entity. Whatever nets out as new growth will always get new money for the entity. When the tax for the new growth is included with the prior year tax ($5,000 base plus the new growth amount of $961 gives a new base of $5,961 for the following year.) When the tax rate is calculated the next year the $5,961 base becomes the entity's budget for the formula.

The tax amount does not go down; however, the new values are included in the base following that. Mr. Sayer said that it can fade away and personal property is a good example of this. Kennecott may be worth $240 billion one year, the next year it is worth $270 billion, and then it drops back down to $240 billion. The new growth money that was generated stays in the base so that when the value drops back down the tax rate is forced up and there is a shift from Kennecott to everyone else in the entity to cover that new growth. When this happens everyone is required to make up the difference and there have been complaints from the legislature. It could come up as an issue in the legislature.

Mr. Brass concluded that new growth is worth pursuing based on the formula for tax rates and revenue.

Mr. Sayer explained an example using the commercial property on Fort Union Blvd. When that area was annexed, the city determined that the revenue was insufficient to provide the services that were necessary to make available. The result was to raise taxes to cover those costs. The entity that they came from, because of statutes and rules that were applied then, kept the same prior year budget, which ended up causing a tax increase to the properties left behind.

Mr. Sayer went to the web based property tax rate program. All the Council should have access to it. It is taxrates.utah.gov . He brought up Murray's 2011 tax rates pointing out the left column with the prior year base value after BOE adjustments. Personal property is the year-before-last year end. Then below is the assessed value, which shows Murray at almost $3.7 billion. Following that are RDA values and then current values before BOE adjustments. You can see how these values have varied from the previous year. It is interesting to see how personal property offsets the real growth in Murray. Real property dropped by $33 million and notice that reappraisal was a negative $40 million, which means that there must be a positive of $7 million someplace else. Looking at the report items, actual new growth was a negative $3.6 million, which equates to the net difference between the $7 million growth in real, the $16 million drop in personal and the $1.9 million increase in assessed to get the net drop of $3.6 million. The change in personal property actually ate up the new growth in real property. It is a common occurrence for changes in other value to eat up good value increases.

The total value of $3.4 billion with BOE adjustments show up under report items. A page calculates this taking the difference between the average over the last three years for real and reassessed properties; we calculate the $12.6 million adjustment and subtract that from values, Mr. Sayer commented. You have the $3.448 million minus $12 million giving the $3.433 million. Murray's collection ratio of 97.02% and 97.3% are used to factor the amount that will not be collected, reducing the $3.4 to $3.3 million. There was no adjustment for new growth giving the proposed tax rate value (in yellow) of $3.331 billion and the certified value of exactly the same amount, because there was no new growth. Scrolling down you can see yellow numbers and green numbers. The green numbers relate to the certified tax rate. The first column in the bottom grid are general operations with prior year budgeted revenue of $5.9 million. We divide that by the $3.3 billion in property value and get 0.001772 for the tax rate. The library was done the same way using the base value. When you take the proposed tax rate, rather than the certified, multiply that by the proposed tax rate value, you can see that you are getting close to the same budgeted revenue. If there were new growth, then it would be built into that number. The system allows you to look back to 1997.

Murray went from $5.7 million last year to $5.9 million this year, Mr. Sayer indicated. This implies that the proposed was bigger than the certified tax rate, but that was because it was the redemption number the City was allowed to take.

Mr. Sayer explained that a couple of years ago the formula was changed from using current year assessed values to last year's year end values. When you take RDA values and begin subtracting prior year's numbers from them they do not balance. Personal property one year varies from personal property the next year. To make it work the formula requires that personal property values be equalized to the appropriate year. It has become quite complex.

The top part of the screen shows all the Murray numbers and the bottom shows the calculations. The main screen will allow the user to enter any proposed tax rate number and it will calculate revenue. You may also enter the revenue you want and it will calculate the tax rate. Under *view* you can determine the collection rate history back to the year 2000. It has not changed much.

Uncollectible are the people that do not pay; redemptions are the people that do pay. This is on the screen under data entry. This site also shows that the last tax rate increase was in 2006, and 2004 for the library. You may also compare yourself to sister cities who are similar to Murray. You can do comparisons to anyone in the state and view their information. Mr. Sayer will take taxpayers to this page to show them and explain tax rates. Under *report* there are a wide variety of reports available. This will help the Murray staff to understand rates better.

Mr. Brass was pleased to be able to refer citizens to Mr. Sayer. He commented that when Murray raised taxes they met with constituents to explain where City money came from and where it went. They went through the property tax bill to offer a better understanding of that as well. He said that Murray receives 12% of the total property tax bill. When the City raised taxes it was a 41% increase on the 12%. By taking the time to talk to them, they understood. This is more complex than what was presented to the residents in the past. Mr. Sayer is quite willing to be available to come to city meetings, answer questions and attend open hearings. If it becomes necessary to raise taxes, the Council will have a series of meetings with citizens and that support would be good in that he would be a semi disinterested third party voice, Mr. Brass added.

Mr. Sayer can be reached at 801-297-3617. On the first page of the website is a login where one can go enter as a guest or create a new user password. Preliminary data is not available to guests.

Ms. Wilson expressed her appreciation for the presentation as it helps makes more sense of tax rates and clears up questions.

Mr. Sayer said the Ms. Combe is in the process of creating a repository for RDA value information. All the projects will reside in this system having all the data available, providing the city staff enters the data on the screen. Another feature is “CHAT” to get questions answered on line. Ms. Combe said that if you think you may want to raise taxes, you can play with “what if” scenarios to test the effects of particular changes. The system will create a camera ready ad with minimal input.

Announcements: **Mike Wagstaff**

Mr. Wagstaff indicated that he needed to get some commitments on meeting times from Council members before they left for the evening.

Adjournment:

There being no further business Mr. Brass adjourned at 6:18 p.m.

Janet M. Lopez
Council Office Administrator