



OFFICE OF THE
STATE AUDITOR

Case # TAX23PA

January 10, 2023

John L. Valentine, Commission Chair
Utah State Tax Commission
210 North 1950 West
Salt Lake City, UT 84134-3310

Dear Chair Valentine:

Over the past few years, the Office of the State Auditor (Office) has received complaints from taxpayers in various counties that allege inequitable distribution of property tax burden across their county. Complainants believe this inequity is due to a high number of properties that do not receive their required annual reassessment or that there is a lack of reassessment uniformity of properties across their county. Some complainants acquired parcel level property tax data for Wasatch and Summit counties and have identified a substantial number of residential properties that have not had valuation changes during years where most residential properties have experienced significant increases in assessed value. Complainants also report county assessors acknowledging that commercial properties have not been reappraised in a timely manner in Wasatch and Summit counties.

During 2021, the Office reviewed data from Wasatch County and subsequently discussed with the Property Tax Division (Division) steps to improve data collection and analysis procedures. These processes and procedures should clearly support plausible estimations of market value for each property owner in the state. The Division made some improvements in its ability to identify properties which have not had the statutorily required review of characteristics within five years. This letter documents our additional review, focusing on the effectiveness of the Division's oversight of counties' required annual update of property values¹ based on the systematic review of market data and adjusting and equalizing the valuation and assessment of property when warranted. There are significant analytic gaps and clear opportunities to better evaluate the effectiveness of a property tax system charged with producing accurate and uniform assessments.

We focused on complaints related to Wasatch and Summit counties. We reviewed:

- Wasatch County Council meetings for December 8, 2021, July 13, August 17, and August 25, 2022;
- Summit County Council Statement Regarding Property Taxes, September 16, 2022;
- State Tax Commission (Commission) meeting for September 22, 2022; and
- Executive Summary, Utah State Tax Commission – Property Tax Division Wasatch County prepared for Governor Cox (Report).

¹ Utah Code §59-2-303.1(2)(a)

We also gathered information from Division employees, county council members, county assessors, taxpayers, and reviewed relevant documentation and data as necessary. Our fieldwork was completed prior to November 2022.

Commission Oversight Responsibilities

The overarching purpose of Article XIII of the Utah Constitution is to achieve uniformity in the ad valorem taxing process. It states: “so that each person and corporation pays a tax in proportion to the fair market value of his, her or its tangible property, all tangible property...shall be: assessed at a uniform and equal rate in proportion to its fair market value, to be ascertained as provided by law; and taxed at a uniform and equal rate.”

Beginning in 1993, Utah Code §59-2-303.1 required county assessors to use “computer assisted mass appraisal systems” that have “the ability to update all parcels of real property located within the county each year; provide uniform and equal treatment of parcels within the same class of real property throughout the county; and annually update property values based on a systematic review of current market data.” These requirements are intended to allow the use of mass appraisal tools to aid assessors in meeting their constitutional obligations. The county assessor and the Commission are to jointly certify that the county’s mass appraisal system meets these requirements.²

The Commission has been given extensive oversight and enforcement powers over county officials to ensure tax equity. Utah Code §59-2-303.1(4) states:

- a. The commission shall take corrective action if the commission determines that:
 - i. a county assessor has not satisfactorily followed the current mass appraisal standards, as provided by law;
 - ii. the sales-assessment ratio, coefficients of dispersion, or other statistical measures of appraisal performance related to the studies required by Section 59-2-704 are not within the standards provided by law; or
 - iii. the county assessor has failed to comply with the requirements of this section.
- b. If a county assessor fails to comply with the requirements of this section for one year, the commission shall assist the county assessor in fulfilling the requirements of Subsections (2) and (3).

The Commission is further required by Utah Code §59-2-704 to:

1. Each year...the commission shall conduct and publish studies to determine the relationship between the market value shown on the assessment roll and the market value of real property in each county.
2. The commission shall, each year, order each county to adjust or factor its assessment rates using the most current studies so that the assessment rate in each county is in accordance with that prescribed in Section 59-2-103.... Where significant value deviations occur, the commission shall also order corrective action.
3. If the commission determines that sales data in any county is insufficient to perform the studies required under Subsection (1), the commission may conduct appraisals of property within that county.

² Utah Code §59-2-303.1(2)(c)

4. If a county fails to implement factoring or corrective action ordered under Subsection (2), the commission shall:
 - a. implement the factoring or corrective action; and
 - b. charge 100% of the reasonable implementation costs to that county.

In addition, the Commission has additional oversight responsibilities for property taxation. Utah Code §59-1-210 outlines the following powers and duties:

3. to adopt rules and policies consistent with the Constitution and laws of the state, to govern county boards and officers in the performance of any duty relating to assessment, equalization, and collection of taxes;
4. to prescribe the use of forms relating to the assessment of property for state or local taxation, the equalization of those assessments, the reporting of property or income for state or local taxation purposes, or for the computation of those taxes and the reporting of any information, statistics, or data required by the commission;
5. to prepare and maintain from year to year a complete record of all lands subject to taxation in this state,
6. to exercise general supervision over assessors and county boards of equalization including the authority to enforce Section 59-2-303.1, and over other county officers in the performance of their duties relating to the assessment of property and collection of taxes, so that all assessments of property are just and equal, according to fair market value, and that the tax burden is distributed without favor or discrimination;
7. to reconvene any county board of equalization which, when reconvened, may only address business approved by the commission and extend the time for which any county board of equalization may sit for the equalization of assessments;
8. to confer with, advise, and direct county treasurers, assessors, and other county officers in matters relating to the assessment and equalization of property for taxation and the collection of taxes; ...
12. to cause complaints to be made in the proper court seeking removal from office of assessors, auditors, members of county boards, and other assessing, taxing, or disbursing officers, who are guilty of official misconduct or neglect of duty; ...
14. to require any person to furnish any information required by the commission to ascertain the value and the relative burden borne by all kinds of property in the state, and to require from all state and local officers any information necessary for the proper discharge of the duties of the commission;
15. to examine all records relating to the valuation of property of any person; ...
19. to visit periodically each county of the state, to investigate and direct the work and methods of local assessors and other officials in the assessment, equalization, and taxation of property, and to ascertain whether the law requiring the assessment of all property not exempt from taxation, and the collection of taxes, have been properly administered and enforced;
20. to carefully examine all cases where evasion or violation of the laws for assessment and taxation of property is alleged, to ascertain whether existing laws are defective or improperly administered; ...
23. to correct any error in any assessment made by it at any time before the tax is due and report the correction to the county auditor, who shall enter the corrected assessment upon the assessment roll;

The Division, via its Real Property Section, performs various of these duties on behalf of the Commission.

Findings

The Division relies on sales ratio studies as a key tool for determining whether counties are in compliance with assessment level and uniformity per tax commission rule and statute. The usefulness of these sales ratio studies is limited. The sales ratio study relies on small samples of both sales data and the reference set from the assessment roll to compare market value. As currently designed and implemented, these studies cannot provide assurance of uniform and equal valuation of properties in the state. For example, the sales ratio studies are unlikely to identify properties which have not been reassessed for an extended period of time. Also, these studies do not facilitate a mass review of every property for reassessment uniformity.

For the assurance detailed in statute, valuation studies should be performed across all taxable properties. Effective oversight of a computer-assisted mass appraisal system would require the Division to develop a comprehensive database and a suite of new analysis tools. The development of a statewide parcel database with new tests would allow the Division to detect and display assessment patterns, correlations, and trends shown in parcel-level property valuations both within and among counties. Dynamic statistical analysis would allow the Division to both validate and then illustrate that uniform and equal rates of assessment to market values are realized on assessment rolls in a transparent manner.

Our procedures indicate that the Division did not adequately oversee the statutorily-required property assessment process. Over the past five years, parcel-level data shows systematic instances of static valuation during periods of dynamic market changes. For example, the Division has not developed the analytic structure to perform a statewide (or even county-wide) test to detect properties which have not been reviewed in a timely manner or which have not had their property values adjusted.³ When reassessment deficiencies were identified, the Division did not order or assist the county to adjust or factor their assessment rates using a systematic review of market data. We noted the following:

1. Procedures Are Insufficient to Ensure Uniform and Equal Treatment of Parcels

The Division's procedures are insufficient to identify when a county significantly fails to provide uniform and equal treatment of parcels within the same class of real property as required by Utah Code §59-2-303.1.

- a. The Division does not have an operationalized statewide procedure to detect parcels that were not annually reassessed to market value.
- b. The Division's improved processes, to be used in concert with the PT-62⁴ reports, to identify parcels that have not received the five-year detailed review

³ The Tax Commission has not utilized the improved data systems (e.g., the Multicounty Appraisal Trust) as invested in by the Legislature to produce a database capable of performing evaluations on more than an isolated basis.

⁴ The PT-62 is a self-reporting by a county assessor to the Division. It identifies numbers of parcels reviewed within certain date ranges. It is subject to self-reporting errors and lacks sufficient independent validation. We were unable to identify a meaningful corrective action that would be performed upon discovery of parcels falling outside the required window of review. For example, in Wasatch County, despite the previous assessor failing to perform a

of characteristics, has not been fully implemented statewide. A plan that takes multiple years (5+) to reach statutory compliance is unreasonable.

- c. In place of corrective action orders, the Division's Memorandums of Understanding (MOU) with the county assessors use a five-year rotating plan by geographical area to test for uniformity. This process limits the Division's ability to test and then to provide valuation adjustments for inequitable property tax reassessment.⁵
- d. The Division's detailed review audit and evaluation methods appear poorly designed to detect known and recurring problems of county assessments.⁶ The sales ratio studies, have been designed to protect counties from "surprises"⁷ and therefore in effect limit the Division's ability to fully evaluate assessment performance.
 - i. The Division and the county assessor appear to agree on the properties within the sample in advance, allowing the county assessor to adjust and correct those valuations before review by the Division.⁸ This approach would cause valuation problems to not be detected. Audits should include procedures, based on random and judgmental samples, designed to detect errors. Samples should not be agreed to with the assessors prior to Division review.
 - ii. Division Detailed Review Audit and Evaluation processes allow adjustment to the 5-Year Detailed Review Plan without the statutorily required corrective action when the planned number of reviewed properties has not been achieved.⁹
 - iii. Analyzing how assessments change from year to year across property types and other features (e.g., sold or not sold, residential, commercial, vacant land) should be robust to all information available to the Division and should be continuously evaluated for whether adopted performance metrics¹⁰ are sensitive enough to detect a variety of potential bias in assessment methodologies.

The Tax Commission has not allocated appropriate resources and expertise to design and implement the data analysis necessary to test county mass appraisal systems to ensure statutory compliance for an annual update to market value of every parcel every year as required by statute.¹¹ When deficiencies in annual updates of property values are identified, the Division has limited its own ability to order corrective action due to the lack of data available to determine appropriate factoring amounts. The Division's Detailed Review Audit and Evaluation methods should include review procedures designed to identify and then correct reassessment deficiencies.

timely review of certain parcels, the Division appeared to simply update its MOU with Wasatch County to include the properties missed into the next year. This repeated for multiple years without that assessor correcting these deficiencies.

⁵ For example, see Wasatch County MOUs 2016-2022, pages 4-12 of annual sales ratio studies 2016-2022

⁶ 2016-2022 Assessment/Sales Ratio Study pg. 4

⁷ State Reports Checklist for Assessors (Revised July 2020): Proposed Sales List; April Study; Memorandum of Understanding

⁸ State Reports Checklist for Assessors: Proposed Sales List; April Study; Memorandum of Understanding

⁹ 2020 Detailed Review Audit and Evaluation Wasatch County, Reviewing Detailed Review Results, pg. 4

¹⁰ Utah State Tax Commission, Property Tax Division, 2022 Assessment/Sales Ratio Study, page 12

¹¹ Utah Code §59-2-303.1

2. Failed to Issue Corrective Action Orders

Despite confirmation¹² that at least two counties are out of compliance with the requirements that properties must have values updated to reflect current market data annually and reevaluated every five years,¹³ the Division has not issued a corrective action order since 2009. Utah Code §59-2-303.1(4) requires the Division to take corrective action when it determines that a county assessor has not satisfactorily followed the current mass appraisal standards and to provide assistance to the county assessor in fulfilling the requirements when requirements have not been met for one year. The issuance of corrective action orders is an essential part of the Commission's oversight responsibilities.

- a. The severity of the problems within Wasatch County as documented by the Report should have resulted in at least two consecutive years of corrective action orders for Wasatch County. Utah Code §59-2-303.1(4)(b) states "if a county assessor fails to comply with the requirements of this section for one year, the commission shall assist the county assessor in fulfilling the requirements..."
- b. Utah Code §59-2-303.1(1)(a)(ii) requires the Commission to notify the state auditor when a county failed to comply with statutory requirements of annual appraisal. The Division did not notify the Office of the Division's finding that:
 - i. 3,654 parcels in Wasatch County did not receive an annual update of values to reflect current market data and detailed property reviews during 2021¹⁴, and
 - ii. 1,457 properties in Wasatch County did not receive an annual update of values to reflect current market data and detailed property reviews during 2022.¹⁵
- c. Division published sales ratio studies from 2016 through 2022 include statements regarding Wasatch County that "no corrective action order issued." These statements do not accurately reflect the statutory noncompliance identified by the Division within Wasatch County.

When clear standards of assessment uniformity are not enforced, it contributes to public mistrust of the property tax valuation process. The Division's stated goal to help counties to independently fulfill their statutory duties does not relieve the Commission of its statutorily-required regulatory oversight responsibilities.

Recommendations

We recommend the Commission:

¹² Wasatch County Deficiencies are addressed in: Wasatch County Assessor's Update to Council December 8, 2021 and July 13, 2022; Division Executive Summary Regarding Wasatch County. Summit County Deficiencies are addressed during the State Tax Commission Meeting September 22, 2022.

¹³ Utah Code §59-2-303.1

¹⁴ Wasatch County Assessor's Update to Council December 8, 2021, Division Executive Summary Regarding Wasatch County

¹⁵ Wasatch Assessor's Update to County Council July 13, 2022; Division Executive Summary Regarding Wasatch County

- Provide adequate regulation of county officers to ensure “assessments of property are just and equal, according to fair market value, and that the tax burden is distributed without favor or discrimination.”¹⁶
- Issue and ensure implementation of corrective action orders if assessors fail to:
 - Follow current mass appraisal standards,¹⁷
 - Meet sales ratio standards provided by rule,¹⁸
 - Annually update values using current market data,¹⁹ or
 - Complete a detailed review of each property characteristics at least every five years.²⁰
- Provide the necessary staff, leadership, expertise, and resources to perform data and statistical analysis of county mass appraisal systems to determine compliance with the standards as outlined by state statute.
- Perform risk-based selective appraisal audits based on both random and judgmental sampling of property values for review.
- Provide county assessors with technical assistance and appraisal assistance when requested or determined necessary by the Division or requested by counties.²¹

Our procedures were limited to matters related to these complaints. Had we performed additional procedures, other matters may have come to our attention that would have been reported to you. By its nature, this report focuses on exceptions, weaknesses, and problems. This focus should not be understood to mean there are not also various strengths and accomplishments. We appreciate the courtesy and assistance extended to us by the Tax Commission and Division personnel during our review. We look forward to a continuing professional relationship. If you have any questions, please contact me.

Sincerely,

Tina M. Cannon

[Tina M. Cannon \(Jan 10, 2023 15:08 MST\)](#)

Tina Cannon, Senior Policy Advisor
801-791-5362
tmcannon@utah.gov

cc: Michael Cragun, Tax Commissioner
Rebecca L. Rockwell, Tax Commissioner
Jennifer N. Fresques, Tax Commissioner
Scott Smith, Tax Commission Executive Director

¹⁶ Utah Code §59-1-210(7)

¹⁷ Utah Code §59-2-303.1(4)(a)(i)

¹⁸ Utah Code §59-2-303.1(4)(a)(ii)

¹⁹ Utah Code §59-2-303.1(2)(a)

²⁰ Utah Code §59-2-303.1(3)(a)

²¹ Utah Code §59-2-703(1)

Auditor Concluding Comments

Independent of any requested legislative changes, there are opportunities for the Tax Commission to strengthen oversight within the existing statutory framework. While supporting and educating the counties is important, it does not absolve the Tax Commission of its statutory oversight responsibilities.



State of Utah

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Commissioner

SCOTT W. SMITH
Executive Director

January 6, 2023

Dear Office of the State Auditor,

We appreciate the opportunity to respond to your audit based on some complaints raised concerning assessments in Wasatch and Summit Counties. The historic market value increases of the last couple of years have highlighted and exposed weaknesses in our support and oversight responsibilities related to county assessments. We are actively taking action to improve processes and acquire additional resources as necessary.

The Property Tax Division was aware of taxpayers' complaints in Wasatch County and had already started working with the county to address many of those concerns. The Division also became concerned that the sales ratio study, although a useful tool, was limited in its ability to ensure equity among all taxpayers in the County. With Utah being a non-disclosure state and having to rely on taxpayers filling out sales surveys, there is not always sufficient data to rely solely on sales ratio studies to ensure a fair and equitable assessment across the board.

The Division needed another tool, so they started the process of collecting parcel level data beginning in Wasatch County. This has allowed them to take an in depth look at the assessment work that was being done. In working with the County, the Division was able to formulate a plan that would enable the Wasatch County assessor to be successful and address existing equity problems. As stated in several of the public meetings, the Division is pleased with the progress but also recognizes that there is more work to be done.

The Division has now gathered the past 5 years' worth of parcel level data from each of the 29 counties. The rapid increases in real estate values over the past 2 years has pointed out weaknesses in certain county assessments and in our auditing procedures. Collecting this parcel level data from each of the counties will assist the Division in working with the assessors from each county to identify those areas that need improvement.

The Tax Commission has also approached the Legislature to enact a statutory change requiring the counties to continue to provide this parcel level data for enhanced analysis of county data. This will allow the Division to maintain a comprehensive database and analysis tool. The Commission has also requested funding from the Legislature for an additional position to assist in advanced data analysis. We recognize that many smaller counties lack the resources and

personnel necessary to perform such analysis. If granted, the Commission will be better able to assist counties in their constitutional duty of fair and equitable assessment and will continue to examine state statutes to determine if further changes are needed.

We agree with the recommendations from your office and only diverge slightly concerning one issue; we strongly believe that in addition to our oversight responsibilities, we have an equal responsibility to provide education and support to the counties. With the necessary process enhancements being sought from the Legislature, the Division will provide quality assistance to the counties to achieve market value across all classes of property, foster their capability to independently fulfill their statutory obligations, and achieve this primarily through education and support.

We have appreciated working with your office through this audit process and the professionalism that was shown to us by your employees.

Sincerely,

A handwritten signature in black ink, appearing to read "Scott W. Smith". The signature is fluid and cursive, with a large initial "S" and a long, sweeping underline.

Scott W. Smith
Executive Director
Utah State Tax Commission