



# The Utah Taxpayer

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How Will Utah Pay for 100,000 Additional Students and 172 New School Buildings?

## School Enrollment Growth Worries Lawmakers

When legislators express concern about the approaching fiscal “train wreck”, they are not talking about light rail or commuter rail. During the next eight years, Utah’s public school enrollment is anticipated to grow by 100,000 students, an increase of more than 20%. The enrollment growth rate over the next ten years will roughly be three times the growth rate experienced during the 1990s. To accommodate this enrollment surge, school districts will have to build 172 new schools and hire at least 4,000 additional teachers. These projections are not just mere speculation since the children who will be entering the public school system during the next five years have already been born and counted.

With Utahns already paying higher taxes as a percent of income compared to the national average, lawmakers are asking how the state can best deal with this enrollment surge.

### Background

Utah ranks last in the nation in per pupil spending but ranks near the top by other measures of education spending, including percent of personal income spent on education and percent of local and state budget spent on education. So how does Utah rank near the top by one measure but at the bottom by other measures? Age demographics plays a major role. Utah has 38.5 school age children per 100 working age adults. This ratio, frequently known as the dependency ratio, is 28% higher than the national average. Compounding this difference is the fact that only 3% of Utah

children are enrolled in private schools compared to roughly 12% nationwide.

While Utah is still dead last in per pupil spending in the nation, Utah made

cases, however, Utah cities compete against each other for these businesses.

Under this arrangement, the developer receives a tax subsidy at the expense of taxpayers and school children.

Over the years your Taxpayers Association has worked to tighten

### Public School Enrollment and Total Population

	1989	1999
Utah Public School Enrollment as Percent of Total Utah Population	29.1%	23.5%
U.S. Public School Enrollment as Percent of Total U.S. Population	16.4%	17.0%
Utah as Percent of U.S.	177%	138%

great strides in education funding in recent years. Utah’s inflation-adjusted per pupil spending increased 10.2% from 1989 to 1999. Most of these gains, however, are attributable to a demographic shift which saw public school enrollment as a percentage of the total population decrease.

Unfortunately, Utah will not be able to rely on favorable age demographics to increase per student funding in the future. By 2020, Utah’s dependency ratio is expected to be 3% higher than it is now.

### Solutions

Your Taxpayers Association Board of Directors is very concerned about this issue and has directed association staff to study options for solving the impending education funding crisis. The Association has already been promoting the following courses of action to solve this crisis.

#### Option 1: Reign in RDAs and EDAs.

In 2000, RDAs (Redevelopment Agencies) and EDAs (Economic Agencies) diverted \$27 million in school property taxes to private developers. In most cases, these commercial developments would have occurred without a taxpayer-subsidized RDA.

Cities claim that RDAs are needed to attract businesses which then increase sales tax revenues for the cities. In most

restrictions on RDAs and EDAs. Last year, your Taxpayers Association took action to stop these types of abuses by helping to convince the Jordan School District to disapprove a \$12.9 million RDA.

#### Option 2: Require Public Entities That Compete Against the Private Sector to Pay Taxes

Several public entities are involved in providing services that compete directly with the private sector, including high speed Internet access, cable television, electricity, recreation centers, golf courses, etc. Private companies that provide services in these areas must pay corporate franchise taxes and property taxes while public entities are largely tax exempt. Customers of private companies are therefore shouldering a larger burden of educating Utah students than customers of public entities who are exempt from taxes.

In the current legislative session, Sen. Michael Waddoups introduced Senate Joint Resolution 6 to create a task force to investigate this issue. This issue is complex, and many questions need to be answered. Nevertheless, the task force will address the basic issue of tax fairness and explore the possibility of increasing school funding from sources that should

*continued on page 2*

# My Corner

By Mike Jerman

Will the economic recovery be a V-shape, as Governor Leavitt believes, or a U-shape? While the economic indicators are mixed, providing evidence to both sides of the argument, economic history provides conclusive evidence how an economy recovers from a recession. All sides agree on the same monetary policy: lower interest rates. The Federal Reserve has pursued this policy vigorously with interest rate cuts over the last twelve months that place current rates at historic lows. However, a disagreement emerges when the issue of fiscal policy is discussed. Should we increase government spending, or should we cut taxes?



Mr. Jerman

Utah, like other states, is prohibited by law from authorizing a budget in which spending exceeds revenues. In other words, the state cannot authorize a budget deficit. Nevertheless, the state can increase spending by bonding for projects such as highways, buildings, and other capital improvements. Bonding for projects that the state intends to complete in the next few years makes sense while interest rates are at historic lows. Some legislators, however, are suggesting that the state issue bonds up to \$300 million, nearly four times the level that Governor Leavitt has recommended, in an attempt to stimulate the economy.

Intuitively, public works spending sounds like a sure-fire way to stimulate the economy. After all, people are put to work who then spend their paychecks which creates jobs for others. Nevertheless, this method has a mediocre track record at best. During the 1930s, President Roosevelt ushered in The New Deal and a host of alphabet programs, as well as a tax hike, that were designed to bring the nation out of the Great Depression. Public works programs sprung up all over the nation. While

## School Enrollment Growth Worries Lawmakers

*continued from page 1*

have been paying taxes all along.

### Option 3: Offer Tuition Tax Credits

Tuition tax credits reduce the total cost of educating students, especially in an environment of rapid enrollment growth as Utah will experience in the coming years. In addition to being cost effective, tuition tax credits increase public school accountability by providing competition.

Utah annually spends more than \$6,000 per student. This figure includes all revenue sources such as the state income tax, numerous property tax levies, federal funds, local fees. These revenues are spent on maintenance, operation, instruction, capital, and debt service. A \$2,000 tuition

tax credit which diverts a portion of the enrollment growth to the private sector saves \$4,000 per student. This savings is returned to the public education system which allows per student spending to increase. Since only the enrollment growth and not the enrollment base will be diverted to the private sector, taxes will not need to be raised to cover fixed costs.

The enrollment surge is already being felt. Last year, Alpine School District won approval to bond for \$200 million. Last week, Davis County won approval to bond for \$190 million. Will these types of bonds become common place in Utah, or will legislators find a way to avoid the train wreck?

many may argue that Roosevelt's New Deal provided hope to the masses and kept people from starving, it did not lead to economic expansion. In fact, unemployment averaged 18% from 1934 to 1939. It wasn't until the nation geared up for World War II that the economy recovered.

This year marks the 10<sup>th</sup> consecutive year of economic stagnation or contraction in Japan. Hoping to stimulate the economy, Japan has borrowed and spent billions of dollars on public works projects over the past decade. Nevertheless, Japanese unemployment is at its highest levels since World War II, and government debt in the past ten years has doubled to 130% of GDP, the highest level in the industrialized world and nearly double the U.S. rate. Consequently, Moody's Investors Service has downgraded Japanese government debt twice. Nikkei average is 50% off its 1990 mark, and the Japanese are still wondering where the bottom is.

A victim of British colonialism, Ireland languished for hundreds of years as one of Europe's poorest countries, which explains why there are more people of Irish decent in the United States than there are in Ireland. Like Spain, Portugal, and Greece, Ireland was a recipient of generous subsidies from the European Union during the 1980s due to its high poverty levels. However, in the early 1990s, Ireland decided to cut corporate taxes and government expenditures while the rest of the

EU decided to maintain high sales, income, and payroll taxes. Consequently, the rest of the EU experienced only modest economic growth while Ireland's unemployment decreased from 14% to 5.5% and real GDP grew more than 8% annually. Long an exporter of workers, Ireland was importing laborers by the late 1990s.

The issue should not be whether or not taxes should be cut but rather which taxes should be cut and by how much. A great place to start would be indexing state income tax brackets for inflation. Lawmakers in Washington DC addressed this issue more than twenty years ago with federal taxes, and it is time that lawmakers in Salt Lake City did the same with state income taxes.

A second area for tax reduction should be capital gains. The current recession is the result of decreased capital investment, not decreased consumer activity. In fact, consumer spending is one area of the economy that has held up. Capital investment, on the other hand, began a rapid decrease in March 2000 that precipitated the recession one year later.

The federal tax code correctly makes a distinction between ordinary income and capital gains. The economic expansion of the 1990s was driven by increases in productivity. A fourth area for tax reduction would be expanding manufacturing sales tax exemption to parts and equipment with a life of three years or less.

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# Utah's Unique Demographics Provide Challenges and Opportunities for Taxpayers

In many respects, Utah is one of the most demographically unique states in the nation, a situation that offers challenges and opportunities. Data from the 2002 *Economic Report to the Governor* demonstrate just how unique Utah is in many ways.

These demographic inputs impact Utah's economy in several ways. First, Utah's poverty rate (8.1%) ranks among

the lowest in the U.S. (11.9%). Since roughly two-thirds of all Americans living in poverty are also living in single parent homes, Utah naturally has a lower poverty rate since it has the lowest percentage of families with children that are headed by a single parent.

Utah's household income is higher than the national average because Utah has more workers per household due to a high prevalence of two-parent families and a low prevalence of single-parent families when compared to the national average. Also, Utah teenagers are more likely to be employed than their national counterparts which increases the number of workers per household and therefore household income.

Utah's per capita income, on the other

hand, is much lower than the national average, mainly due to a very high number of children.

Utah's age and family demographics are a two-edged sword from a taxpayer perspective. Low poverty rates and high household incomes reduce the need for government services. On the other hand, large numbers of children place a very large burden on public education system.

## Poverty and Income: Utah vs The U.S.

	Utah	U.S.	Utah's Rank
Poverty rate (1998-2000)	8.10%	11.90%	6th lowest
Median household income (1998-2000)	\$46,539	\$41,789	11th highest
Average Annual Pay (2000)	\$29,226	\$35,296	33rd highest
Per capita income (2000)	\$23,364	\$29,451	45th highest

## Family and Age Demographics: Utah vs The U.S.

Measure	Utah	U.S.	Utah's Rank
Persons per household	3.13	2.59	1st highest
% married couples	63.2%	51.7%	1st highest
Youth (ages 16 - 19) as % of workforce	8.6%	5.4%	1st highest
Percent of families with children headed by single parent	17%	27%	1st lowest
Median age	27.1	35.5	1st lowest
Pre-school age dependency ratio (children under age 5 per 100 working age adults)	15.8	11	1st highest
School age dependency ratio (children 5 - 17 per 100 working age adults)	38.5	30	1st highest

## Legislative Committee

Your Taxpayers Association Legislative Committee will be meeting throughout the 45-day session of the Utah Legislature. The committee studies tax-related legislation and determines the Association's position on proposed bills.

The committee's membership is open to all members of the Utah Taxpayers Association. If you would like to participate, please call the Association office at (801) 972-8814.

## 2002 Taxpayer Watch List

Here is a partial list of bills from the 2002 legislative session your Taxpayers Association is tracking. For a complete list please contact us at: (801) 972-8814 or newsletter@utahtaxpayers.org

**HB50 (Harper)** - eliminates marriage tax penalty for retired couples. Currently, retiree exemption phase-out begins at \$25,000 for singles and \$32,000 for married couples. HB50 would raise exemption phase-out to \$50,000 for married couples.

**HB51 (Harper)** - codifies existing practice by extending sales tax exemption to repair and renovation of parts and labor

**HB60 (Hatch)** - allows low-income Utahns with an adjusted gross income of less than \$25,000 to claim a non-refundable tax credit equal to 5% of the federal Earned Income Tax Credit.

**HB103 (Ferrin)** - reduces the rate at which capita gains are taxed from the current 7% to 3.5%. This is intended to increase investment and capital formation. The federal government makes a distinction between ordinary income and capital gains income, but Utah has not since 1986.

**HB238 (Saunders)** - increases cigarette sales tax by 58% (an additional 30 cents per pack) and allocates the anticipated revenue increase for various programs.

**HJR8 (Daniels)** - allows fuel taxes to be allocated for mass transit. Currently, fuel taxes are only used for roads.

**HJR13 (Bennion)** - allows the legislature to call itself into session.

**SB31 (Bramble)** - requires automatic adjustment of income tax brackets for inflation.

**SB84 (Bramble)** - allows property owners who are contesting property valuations to use non-certified appraisers in the appeals process.

**SB58 (Buttars)** - increases cigarette taxes 19% (an additional 10 cents per pack) and allocates the anticipated revenue increase to create the Working Parent's Health Care Assistance Plan.

**SB102 (Stephenson)** - defines types of improvements and construction projects which cities, counties, and districts must solicit bids. This bill prohibits local governments from using their own work crews to work on projects that should be performed by the private sector.

**SJR5 (Hickman)** - allows legislature to call itself into session.

**SJR6 (Waddoups)** - creates a task force to investigate tax exempt status of public entities that compete against the private sector.

# 2002 Membership Opinion Survey

In January, the Association conducted its annual Membership Opinion Survey asking members about important tax issues. Of the responses received to date, here are the results which will be considered by the Legislative Committee and Board of Directors in determining the Association's position on pending bills.

1. Many consider property taxes to be the most onerous of all taxes. Currently, Utah law exempts 45% of the value of primary residences from property tax. Under Utah's Truth-in-Taxation law, reductions in taxable value of residential property causes an increase in the taxes of all other property. **Do you favor increasing the exemption for primary residential property tax to 60%?**

50.7% Yes 49.3% No

2. Last year the legislature reindexed tax brackets to adjust for inflation for the first time in more than 25 years. This one-time adjustment saved taxpayers \$18 million. Without automatic reindexing of tax brackets, the state of Utah receives an additional \$4 million tax hike each year. **Do you favor legislation that would enact automatic reindexing of income tax brackets to adjust for inflation?**

97.4% Yes 2.6% No

3. The Federal government recognizes a distinction between ordinary income and capital gains. Federal taxes on capital gains are capped at 20% for individuals in tax brackets with rates of 28% and higher. Federal taxes on capital gains for individuals in the 15% tax bracket are capped at 10%. Currently, the State of Utah does not recognize a difference between capital gains and ordinary income. **Do you favor legislation that would tax**

**capital gains at a lower rate than ordinary income?**

90.5% Yes 9.5% No

4. Utah is one of the driest states in the country yet Utah has some of the lowest water rates in the nation, in part because water cost are subsidized by property taxes. Many suggest that just as gas taxes finance roads, user fees should finance water consumption. **Do you favor legislation allowing capital costs of water development to be financed through property taxes but requiring maintenance and operation costs of water systems to be financed by user fees?**

68.1% Yes 31.9% No

5. Most large Utah municipalities impose a utility franchise tax of 6% on residential and commercial utility usage. Counties have been prohibited from imposing this tax because this would discourage high energy use employers from keeping or locating their facilities in the area. Some Salt Lake County officials are seeking legislation that would allow Salt Lake County to impose this tax on the unincorporated areas while promising to reduce property taxes in the first year of the new tax. **Should Salt Lake County be allowed to impose a new 6% utility franchise tax?**

21.3% Yes 78.7% No

6. Some legislators are proposing a constitutional amendment to allow the legislature to call itself into session. This proposal is a reaction to Governor Leavitt's decision to handle the current fiscal year budget shortfall without calling a special legislative session. **Should the state constitution be changed to allow the legislature**

**to call itself into session?**

25.7% Yes, for any purpose  
29.7% Yes, for fiscal emergencies only  
44.6% No, not for any purpose

7. Over the next ten years, public school enrollment is expected to increase by more than 20%. To accommodate this growth, the state will have to build an additional 170 schools. State officials anticipate that by 2010 an additional \$1 billion will be needed annually to educate the additional 100,000 students. To mitigate the cost of this expansion, many are proposing a \$2,500 universal tuition tax credit that would encourage parents to enroll their children in private schools thereby saving taxpayers \$1,500 per student as well as reducing the need for additional school construction. **Do you support tuition tax credits as a means of controlling student growth in the public school system?**

76% Yes 24% No

8. Currently, parents can claim dependent children on their state income taxes. This amounts to \$105 per dependent child for those in the 7% tax bracket. Since Utah state income taxes are allocated only for education, some argue that parents of children in public schools should not get a tax break for using the system for which income taxes are earmarked. Some say that offering an income tax exemption for children who happen to attend public schools would be like offering a fuel tax exemption to people who drive on I-15. **Would you favor eliminating the dependent exemption for children in the public schools?**

23.4% Yes  
33.8% Yes, but only if income tax rates were cut so that the entire change was revenue neutral.  
42.9% No