



The Utah Taxpayer

A Publication of the Utah Taxpayers Association

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April 2008 Articles

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Taxpayers Association wins passage of nation's best government privatization law

One of the most significant legislative victories for taxpayers and free enterprise advocates this session was a package of three-bills which addressed the issue of government competition with the private sector. For several years your Taxpayers Association has toiled to convince the legislature to get serious about limiting governments' abilities to get into the business of business. The Reason Foundation considers this privatization law the best in the nation.

In 2007 the Association won creation of a Government Competition and Privatization Subcommittee of the Revenue & Taxation and the Business and Labor Committees to review processes for setting limits on state and local government competition with tax-paying private businesses. The sub-committee also studied ways to encourage out-sourcing and privatization of government functions. The subcommittee produced HB 75, (Frank) Inventory of Competitive Activities, and SB 45 (Stephenson) Inventory for Competitive Activities of Local Governments, which require state and local entities to examine their activities which might compete with private businesses. Both bills were enacted by the legislature.

The legislature added to these sub-committee bills a bonus privatization bill, HB 426 (Garn) Government Procurement – Private Proposals, which allows the private sector to submit proposals to provide a product or service currently provided by government and to have the proposals to be evaluated by a committee appointed by the Board of Business and Economic Development.

HB 75 enjoyed the support of such disparate groups as the Reason Foundation and the Utah Public Employees Association and the Utah Taxpayers Association, and received bipartisan support in both the House and Senate.

HB 75 requires 3 things. First, it balances the membership on the existing Privatization Policy Board (PPB). Second, it requires the PPB to develop an accounting method that provides an apples-to-apples comparison of how much it costs to provide a good or service in the public versus the private sector.

Finally, the bill requires the PPB to conduct a thorough inventory of every activity performed by the state, and then decide if each activity can only be performed by the state, or if a private company might be able to provide the service.

While it's tempting to chalk the bill's success solely up to the Session's overall tone, other factors prevented this bill from succumbing to the bickering that plagued privatization bills in past sessions. The bill is both modest and revolutionary. It's revolutionary, in that Utah will join rather select company. Only the federal government, Virginia and Florida have conducted such wide-ranging inventories. Changes coming out of its inventory are saving Virginia taxpayers \$40 million per year.

HB 75 is modest in some respects. First, it brings together parties that have traditionally been on



Rep. Kevin Garn



Rep. Craig Frank

MARK YOUR CALENDARS FOR May 13th AND June 4th FOR THE 30th ANNUAL TAXES NOW CONFERENCE & TEED OFF ON TAXES GOLF TOURNAMENT

"Utah Taxes Now" Annual Conference: Tuesday, May 13th, 2007 at Little America Hotel.
 "Teed Off on Taxes" Golf Tournament: Wednesday, June 4th, 2008 at The Eaglewood Golf Course in North Salt Lake. Register for both events at www.utahtaxpayers.org
 To reserve your spot call 801-972-8814, or email fallon@utahtaxpayers.org
 The agenda for our annual conference will include presentations on privatization of government services, government transparency, transportation funding reform, and public education reform.

Visit Us at www.utahtaxpayers.org

Meanwhile, UTOPIA announced this week that it is restructuring its \$181 million in debt so they can repay it over 33 years instead of the original 20 years.

iProvo's financial woes are well-documented. A project originally billed as a revenue source for Provo and a means of making the city more attractive to business, the project has instead required millions upon millions of dollars in annual subsidies from the city.

More to the point, should UTOPIA member cities risk even more sales tax dollars by extending their pledges to 33 years for infrastructure which private sector providers pay off in 5 years?

opposite sides of the privatization issue. It is also a modest approach because it does not mandate any specific activity to be privatized. After conducting the inventory, the PPB recommends 3 activities to be privatized every 2 years.

The Utah Taxpayers Association was assisted in this effort by the Reason Foundation, NFIB-Utah, and the Utah Restaurant Association.



**My Corner - by Howard Stephenson
UTOPIA and iProvo prove
municipal telecom doesn't work**

Utah's largest municipal telecom systems are proving that government-owned telecom networks don't work well. Sources indicate that Provo is preparing to sell its iProvo network, likely at fire sale prices. Meanwhile, UTOPIA announced this week that it is restructuring its \$181 million in debt so they can repay it over 33 years instead of the original 20 years.

UTOPIA's financial position appears even worse than iProvo's. According to their FY 2007 audit, only 6,161 homes and businesses, out of a possible 37,160, subscribed to a UTOPIA service. That 16.6% take rate is well below the minimum take rate of 20% UTOPIA indicated would be necessary for the project to succeed. In addition, their 2007 audit confirms the Taxpayers Association's December 2007 finding that UTOPIA's operating deficit over the first three years is \$37.9 million.

Presumably with these failures in mind, UTOPIA announced at their March 17 board meeting that they are restructuring their existing debt, and taking on new debt. Instead of repaying the \$181 million in bonds over 20 years, as originally planned, UTOPIA is now asking its pledging members to extend and increase their annual sales tax pledges to 33 years. By extending the term of their debt, UTOPIA anticipates freeing up capital to continue build out, and to maintain their existing operations. In addition, UTOPIA plans to assume between \$4 million and \$8 million in additional debt, bringing their total debt to as much as \$189 million.

Leaving aside the wisdom of ever extending a repayment schedule to free up operating capital, UTOPIA's 33 year repayment plan is well outside industry norms. When private providers go into capital markets to build fiber networks, they anticipate repaying the debt within 5 years. Beyond that time frame the electronics in even "future-proof" fiber optics are outdated. Even bonds for low-tech municipal sewers only extend 20 years.

Everyone knows that extending debt repayment schedules to free up operating capital is a poor financial decision. In effect, UTOPIA wants to pay its mortgage with a credit card. With credit markets already in disarray, and investors moving towards the safest investment vehicles, there are serious questions about whether UTOPIA will even be able to sell these bonds. If not, will UTOPIA be forced to draw on the sales tax pledges of its member cities? In the current volatile capital market, that is an all too realistic possibility.

More to the point, should UTOPIA member cities risk even more sales tax dollars by extending their pledges to 33 years for infrastructure which private sector providers pay off in 5 years? City Council members in the pledging

Quote of the Month #1

"I want to make it clear that, while [the Utah Education Association] is willing and eager to explore well-constructed and funded differentiated compensation models that encourage teachers to stay in the classroom and acquire more knowledge and skill concerning their profession, the UEA will resist any attempt to implement a simplistic 'pay for test scores' model of compensation."

Source: UEA Pres. Kimilee Campbell
UEA Capitol Bulletin
March 7, 2008

UTOPIA member Cities by Pledge Status

Pledging members	Original Sales Tax Pledge
Brigham City	\$335,956
Centerville	\$334,126
Layton	\$1,676,968
Lindon	\$308,681
Midvale	\$608,337
Murray	\$1,235,039
Orem	\$2,189,704
Payson	\$259,920
Perry	\$82,414
Tremonton	\$253,474
West Valley City	\$2,806,999
Non pledging members	
Riverton	\$-
Cedar City	\$-
Vineyard	\$-
Washington	\$-
Total	\$10,091,618

Through this free, searchable portal, taxpayers will be able to see exactly how specific departments spend their money

cities understood when they joined UTOPIA that they were risking their sales tax revenues needed to pay for police and fire budgets. Those city councils would likely raise property taxes to make up for the sales tax dollars going to UTOPIA, and those Truth-in-Taxation hearings would undoubtedly be painful, but taxpayers will be better served if UTOPIA cities pay their bills today since the loans are already overextended. As the Utah Taxpayers Association warned, they never should have jumped on the UTOPIA bandwagon to begin with, but extending their exposure to UTOPIA's failures for another 13 years only increases the amount of money taxpayers will lose.

Legislature enacts Taxpayers Association-supported, sweeping government transparency bill

For years taxpayers have been frustrated by their inability to know exactly how their elected officials spend tax dollars. Some cities, school districts or counties only provide hard copies of their budgets, and where they provide digital copies, they are almost never searchable or detailed.

Fearing the accountability that full transparency would provide, they publish non-searchable digital copies of their budgets. Being non-searchable, taxpayers have to re-enter all the data in their own spreadsheets before they can analyze the budget.

At the state level, Sen. Wayne Niederhauser has won passage of ground breaking legislation which has changed all that. Partnering with the Taxpayers Association, he sponsored SB 38, the Transparency in Government Finance Act. This pioneering bill requires the Division of Finance to publish and maintain the Utah Public Finance Website.

Through this free, searchable portal, taxpayers will be able to see exactly how specific departments spend their money; how the Legislature allocates money between departments; how much money is spent on various services across departments ; etc.

In effect, SB 38 will create "Google-government," and arm taxpayers with the information they need to hold their elected officials accountable at truth-in-taxation hearings, at the polls, and at regularly scheduled meetings throughout the year.

School building property tax equalization enacted

The split of the Jordan School District has focused attention on the yawning gap between the new district comprising the west portion of the Jordan school district, and every other school district in Salt Lake County. With tremendous growth and low taxable value, that district will have to impose extraordinarily high property taxes to fund the buildings necessary for all the incoming students. By contrast, the other 4 districts in Salt Lake County can meet their capital needs with a modest property tax rate, because their enrollment is stable, and they have much higher taxable values. While the west portion of the Jordan School District is hardly the only district facing this combination of problems—Nebo, Tooele, Washington and Alpine school districts do too—the Jordan School District is the only district to split so far.

To prevent massive tax increases on the west side of the Jordan School District, Sen. Dan Eastman and Rep. Aaron Tilton sponsored and got passed SB 48. This bill pools a portion of the property taxes imposed by all the districts in Salt Lake County, and then redistributes that revenue based on effort, need and ability. In practical terms, it transfers property tax dollars from Salt Lake, Granite, Murray and Jordan East school districts to the Jordan West school district. Unfortunately, the House rejected a plan to equalize these property taxes statewide. Nevertheless, SB 48 represents the first important step in equalizing the school building portion of our property taxes on a statewide basis, just as we already equalize school maintenance and operation funding using statewide property taxes and income taxes.

2008 Legislature mixes tax cuts with tax increases

Despite having the 3rd largest revenue surplus in Utah history, legislators raised taxes during the 2008 General Session. Not only did they raise taxes, but they earmarked the revenue from that tax, instead of allowing all programs to compete equally for those funds.

The December revenue projections suggested the state would have approximately a \$900 million surplus, which spurred discussions by House and Senate leadership in January of cutting taxes by between \$60 million and \$100 million. Governor Huntsman didn't include a tax cut in his budget, proposing instead to increase public education spending by 7%. Given the outcry over property taxes, however, tax cuts remained on the table.

Quote of the Month #2

“While the session started with larger ambitions, a diminished budget surplus and political deadlock led to less dramatic results -- a good thing in the case of a proposed \$100 million tax cut which was shelved.”

Translation: Hey, we may be losing our jobs, but look at the bright side - no tax cuts.

Source: *Progressive States Network*

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With the December revenues fueling high expectations for both one time and on-going revenue, the Appropriations Subcommittees planned for hundreds of millions of dollars in spending on a host of new programs. Your Taxpayers Association worked mightily to pass several tax cut bills, including SB 28 Electable Single Sales Factor. When the newest revenue projections were released February 18, the Legislature found itself in a difficult situation. Projected revenues in the General and Education Funds were 2.04% lower than the December projections anticipated. Rather than cutting spending, the Legislature took virtually all tax cuts off the table.

With the revenue surplus spoken for and no new transportation spending in place, the legislature proposed a "tax shift;" they would pair \$23 million in tax cuts, mostly for individuals and families purchasing their own health insurance, with a .05% increase in the statewide sales tax. This revenue was earmarked for the highest priority transportation chokepoints.

While Utah's transportation infrastructure needs a great deal of help, using sales tax dollars to subsidize transportation will not improve the transportation system. The state needs to move away from general fund subsidies of transportation, and instead rely on user fees, and adopt congestion pricing, so that those who use the busiest roads at the busiest times pay for that good. Unfortunately, the Legislature chose to ignore these fundamental principles of tax policy.

Tax Cuts and Increases in HB 359, 3rd Sub. Sales Tax Changes

SB 31	Income Tax Amendments	\$(8,400,000)
SB 64	Income Tax - Capital Gains Transactions	\$(400,000)
SB 204	Income Taxation - Real Estate Investment Trusts	\$6,000,000
HB 201	Tax Credit for Solar Projects	\$ (250,000)
HB 359	Sales and Use Tax Changes	\$(1,958,000)
HB 133	Health System Reform	\$(18,700,000)
HB 359, 3rd Sub.	.05% sales tax increase	\$ 21,870,000
	Total	\$ (1,838,000)

2008 Key Legislation Box Score		
Wins- 11 Losses- 1		
Sponsor/ Number	Senate Bills	Win/ Loss
SB 28 Stephenson	Corporate income tax single sales factor UTA Position  Legislative Action 	Loss
SB 38 Niederhauser	Government transparency – online database of state expenditures UTA Position  Legislative Action 	Win
SB 48 Eastman	Equalizes a portion of property taxes for school buildings UTA Position  Legislative Action 	Win
SB 45 Stephenson	Creates inventory of city and county competition with private sector UTA Position  Legislative Action 	Win
SB 61 Jones	Financial and economic literacy instruction in public schools UTA Position  Legislative Action 	Win
SB135 Niederhauser	Sales and use tax exemption for pollution control equipment UTA Position  Legislative Action 	Win
SB 237 Niederhauser	Changes corporate income tax apportionment for airlines UTA Position  Legislative Action 	Win
House Bills		
HB 52 Dougall	Research and development tax credit. UTA Position  Legislative Action 	Win
HB 54 Harper	Requires county assessors to annually update property values UTA Position  Legislative Action 	Win
HB 58 Dougall	Directs severance taxes in to a trust fund UTA Position  Legislative Action 	Win
HB 75 Frank	Creates inventory of state competition with private sector UTA Position  Legislative Action 	Win
HB 426 Garn	Allows private sector to bid to perform state functions UTA Position  Legislative Action 	Win