Volume 32 January 2007 Number 1

The Utah Taxpayer

A Publication of the Utah Taxpayers Association

1578 West 1700 South♦Suite 201♦Salt Lake City, Utah 84104♦(801) 972-8814

January 2007 Articles

Huntsman Proposes $100 Million Tax Cut, Additional Tax Reform, and Huge Spending Increases

Governor Huntsman released his proposed FY2008 budget a couple of weeks ago. Except for last year, we can't remember the last time state spending was projected to grow so fast. Here are the details:

Total state budget growth, includes federal funds:	6.7%
General/education fund growth:	15.0%
General/education fund revenue growth:	15.3%

General/education fund revenue growth:	$761.8 million
Surplus for 2007:	$498.2 million
Surplus for 2006:	$308.4 million
Total new revenue:	$1.57 billion

Source: GOPB; FY2006 surplus was $380 million before transfers to various funds.

The governor is also proposing $114 million in supplemental appropriations for 2007. If approved, the 2007 post-supplemental budget will "officially" be 19.7% higher than the 2006 post-supplemental budget.

Quote of the Month #1

"It would be irresponsible to hand a few bucks back to taxpayers, who haven't really missed it."
Provo Daily Herald claiming it would be irresponsible for legislators to allow taxpayers to keep their own money.
Provo Daily Herald Editorial Board, December 17, 2006

Are "official" growth rates correctly stated?

To its credit, the governor's office -- unlike the Legislature --has always calculated budget growth rate by taking the difference in the proposed budget for the next fiscal year with the original, pre-supplemental budget for the current year.
The Legislature's approach, on the other hand, understates eventual budget growth because it includes supplemental appropriations in the current year but excludes supplemental appropriations for the next year (because next year's supplemental appropriations won't be known for twelve months).

However, the governor's office -- like the Legislature -- excludes earmarked general fund revenues when calculating general/education fund growth rates. Since the amount of earmarked general fund revenues continues to increase -- from $102 million in 2006 to $215 million in 2007 and maybe even more in 2008 -- total general/education fund growth rate is understated. Huntsman's budget projects earmarked general fund revenues of $222.7 million in 2008, but the Legislature may increase that again.

For example, the "official" expenditure increase in the FY2007 budget (including supplementals) is 19.7%, but the actual increase is 21.9% if earmarked sales taxes are included for FY2006 and FY2007.

Obviously, these are exceptionally high growth rates, and taxpayers should be concerned that government is growing at an unsustainable rate. Fortunately, the governor has budgeted a lot of ongoing and one-time cash for capital projects.

Huntsman's Proposed Education Budget

Governor Huntsman is proposing huge increases in public education funding. Exactly how much of an increase, as usual, depends on how you measure it.

Utah Taxpayers Association's Annual Pre-Legislative Conference

Utah Taxpayers Pre Legislative Conference will be held Thursday, January 11, 2007 at the Utah State Capitol, West Annex Building, Room 135. Admission is free!
RSVP by emailing brina@utahtaxpayers.org or call 801-972-8814
For more detail go to end of the newsletter.
Go to www.utahtaxpayers.org for a full agenda.

THE UTAH TAXPAYER is published each month by the Utah Taxpayers Association, a non-profit association working for greater efficiency and economy in government. Subscription: $50 per year, included in annual dues. Permission to copy all publications with attribution.

Total state public education funding: 11.7% increase over FY2007 pre-supplemental budget

This includes several sources, such as education fund, general fund, federal funds, some local property tax (basic, voted, board, K-3 reading), and other sources. It excludes many local property tax levies including capital, debt service, recreation, 10% of basic, and tort liability.

Most of these expenditures will occur at the district level, but some of these expenditures will occur at the State Office of Rehabilitation and Schools for the Deaf and the Blind.

Minimum School Program including School Building Program: 14.97% increase over FY2007 pre-supplemental budget

Minimum School Program including School Building Program: 14.97% increase over FY2007 pre-supplemental budget

The Minimum School Program (MSP) is the major funding mechanism for Utah public school districts. It is funded mainly by state individual and corporate income taxes (about 80% in FY2007), local property taxes (about 18% in FY2007) and a small amount from the education permanent trust fund. MSP sources exclude federal funds, several local property tax levies such as capital, debt service, recreation, 10% of basic, recreation and others.

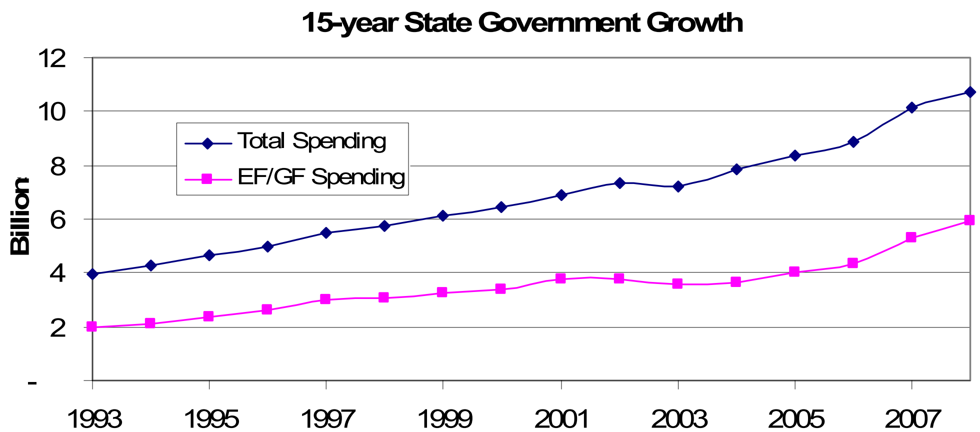
Weighted Pupil Unit: 7.0% increase over FY2007

The weighted pupil unit (WPU) is the most misunderstood term in Utah public education finance. Education groups and newspapers frequently equate WPU increases with per student funding increases, but this is not accurate.

Unfortunately, most people will think that spending per student is increasing by 7% when the increase will be much higher. So-called "below the line" items are not included in the WPU, and Huntsman is proposing a massive 21.7% increase in ongoing below-the-line expenditures. In Huntsman's 2008 budget, below-the-line items account for more than one-third of total MSP expenditures.

Assuming a 3% enrollment growth, MSP expenditures per student will increase by about 11.5% if Huntsman's budget is approved, much more than the 7% WPU increase.

Since 1970, inflation-adjusted per student spending in the U.S. has increased by 122% yet 12th grade NAEP scores have been flat.



Source: GOPB; EF/GF spending includes earmarked sales tax revenues

Gov. Huntsman is proposing an ongoing individual income tax cut of $100 million starting in FY2008 as well as a one-time $50 million tax cut retroactive to FY2007. The income tax cut will be coupled with tax reform.

Will it be enough?

Since 1970, inflation-adjusted per student spending in the U.S. has increased by 122% yet 12th grade NAEP scores have been flat. Right now, reform is at least as important as additional spending. Spending increases must be accompanied by real education reform including

- vouchers for low and moderate income families
- merit pay for teachers
- differential pay for teachers
- removing the cap on new charter schools
- funding equity for charter schools

Governor Huntsman has already committed to signing a voucher bill. It's time for the Republican-controlled legislature to deliver.

Huntsman's Proposed Tax Cut

Gov. Huntsman is proposing an ongoing individual income tax cut of $100 million starting in FY2008 as well as a one-time $50 million tax cut retroactive to FY2007. The income tax cut will be coupled with tax reform.

Rainy Day Fund, Working Rainy Day Fund, and Bonding

FY2007 rainy day fund balance is expected to reach $275 million, an all-time high and about 129% higher than the rainy day fund balance of FY2001 (the year before the legislature drew down the rainy day fund to balance the budget during the recession).

Huntsman's FY2008 budget includes $700 million in cash for roads and $200 million in cash for buildings.

Huntsman is not proposing any new general obligation bonds. In fact, Huntsman's FY2008 budget projects debt service expenditures of $239.5 million, which is 12.7% less than debt service expenditures in FY2005.

Huntsman is not proposing any new general obligation bonds. In fact, Huntsman's FY2008 budget projects debt service expenditures of $239.5 million, which is 12.7% less than debt service expenditures in FY2005.

Some argue that state government isn't really growing.

Despite the proposed massive EF/GF increases, some argue that Huntsman's budget proposal isn't really growing government because a lot of the increase is being used for capital projects and the number of state employees isn't increasing.

First of all, the number of official state government employees may not be growing, but the number of school district employees -- mostly teachers -- is growing. While nearly everyone agrees that more teachers are needed to handle enrollment growth, these should still be counted as employment growth since state funds account for about 68% of school district operating costs and since K-12 education is the largest single item in the state budget.

Second, capital projects are still government expenditures, even if they are considered "one-time" expenditures on a year-to-year basis. Moreover, since Utah will be growing at significant rates for the foreseeable future, capital projects -- including transportation -- really aren't one-time expenditures from a long-term structural budget perspective since the state will have to continue to spend massive amounts of tax dollars on transportation for the next several decades.

Huntsman Proposes Additional Tax Reform

Gov. Huntsman is proposing to expand tax reform by lowering the flat tax rate from 5.35% to 5.0%. Huntsman is also proposing a refundable tax credit targeted towards low and moderate income families.

About 6% of taxpayers will benefit from the rate reduction and about 51% will benefit from the means-tested refundable tax credit.

The governor is to be applauded for continuing to work towards lowering Utah's individual income tax rates.

Credit details

Maximum credits would be $600 for married households, $300 for single households, and $115 per person. The credit is refundable up to 2% of AGI. For a married household, the credit phases out between $30,000 and $90,000.

The Utah Taxpayers Association has calculated the impact of these changes, and the governor's office agrees that the credit amounts -- which are based on FY2004 Tax Commission data -- will have to be increased in order to get taxpayers to switch to the new system.

The governor anticipates that these two changes will move about 57% of all taxpayers to the (modified) flat tax.

The purpose of the phased-out tax credit

- By phasing out the tax credit, the governor can lower the flat tax rate even more than if the credit weren't phased out. No matter how big the tax cut ends up being, a phased-out credit will allow for a lower tax rate because the phased-out tax credit consumes less tax cut "headroom" than a credit that isn't phased out.
- Like most states, Utah's state and local tax structure is regressive (low income households pay a higher percent of income in state and local taxes than higher income households), and this is due to sales taxes. Low income households spend a higher percent of income on goods and services subject to sales taxes. A means-tested refundable credit can significantly reduce the regressivity of state and local sales taxes. [Note: some studies overstate the regressivity of state and local taxes. We'll discuss that at a later time.]

Gov. Huntsman is proposing to expand tax reform by lowering the flat tax rate from 5.35% to 5.0%. Huntsman is also proposing a refundable tax credit targeted towards low and moderate income families.

Some have referred to Huntsman's means-tested refundable credit as an earned income tax credit (EITC), but it is more accurately described as a sales tax offset.

Some will oppose this approach because it "takes people off the tax rolls", but many low income household are not currently paying state income tax. In tax year 2006, a family of four earning less than $20,000 is not paying Utah state income tax (standard deduction of $10,300 and 4 x 0.75 x $3,300 standard exemption equals $20,200).

Again, the real culprit is the regressive sales tax, and the insistence of the spending lobby to push for additional local boutique sales taxes makes matters worse.

As Huntsman's proposal meets the realities of the sausage factory, the proposal will be modified, maybe even significantly. Fortunately, Huntsman has some really sharp people working on this.

My Corner - by Howard Stephenson

Did Salt Lake County COG and Utah Transit Authority Hoodwink Voters and the Legislature?

The September special session of the Utah Legislature gave the Salt Lake County Council of Governments (COG) everything it wanted. But in authorizing Salt Lake County to place a new ¼ cent sales tax on the November ballot, the legislature also required careful prioritization of projects based on their ability to relieve traffic congestion and accidents. The COG laughed all the way to the bank as they committed a paltry $30 million of an approximate $1 billion to highways.

County officials and city mayors were concerned that a property tax for light rail expansion would not have the same chance with voters as a sales tax hike would.

The COG, which includes mayors throughout the county and county council members, had sought legislation to change the Salt Lake County ballot proposition from a $900 million dollar Trax property tax bond to a sales tax authorization instead. County officials and city mayors were concerned that a property tax for light rail expansion would not have the same chance with voters as a sales tax hike would.

So the legislature gave in to the COG's demands but wanted to ensure the money was spent to yield the best bang for the buck. Legislators are currently providing $464 million in general fund money for transportation projects in addition to giving millions of state sales tax dollars for city and county roads. This is expected to rise to $700 million.

Having given so much toward unmet transportation needs and still not seeing a light at the end of the unfunded project tunnel, the Legislature wrote into the legislation a requirement that ¼ of the ¼ cent sales tax would go for Mountain View Highway corridor preservation and that a scientific weighting process be used to compare the relative merits of transit and highway projects and prioritize those with the biggest effect on congestion and safety improvement.

So in a September special session the legislature passed HB 4001 which authorized the county to seek voter approval of the ¼ cent sales tax on the November ballot and take the property tax bond off the ballot.

There were in many legislators' minds serious doubts about the immediate need for three of the four proposed light rail spurs. They observed that even though the federal government, which is big on mass transit, dedicates 25% of all federal gas tax dollars to mass transit, the feds are funding only the Daybreak line. The real reason the other three lines were proposed to be built early without waiting to justify federal support, is that supporters thought the ballot needed to include projects around the valley to win voter support.

Quote of the Month #2

"We hope Huntsman will get legislators to see the wisdom of using surplus to enhance the state's quality of life rather than squandering it on quick, meaningless [tax cut] giveaways."

Provo Daily Herald once again speaking against a tax cut,
Provo Daily Herald Editorial Board, December 17, 2006

Because of the fact that Utah Transit Authority (UTA) and Utah Department of Transportation (UDOT) exist in separate silos, there has been no motivation for a cost-benefit analysis of transit and road projects side by side, yet taxpayers pay for both. Because of the mistakes experienced with the highly political Centennial Highway Fund, which spread projects around the state to win legislative support, the legislature has directed UDOT to prioritize highway projects based on scientific need, not politics. The legislature sought to engage the same process to prioritize transit projects together with roads – on a statewide basis.

So in a September special session the legislature passed HB 4001 which authorized the county to seek voter approval of the ¼ cent sales tax on the November ballot and take the property tax bond off the ballot, together with the requirement for a combined project prioritization process and earmarking ¼ of the tax for Mountain View corridor preservation.

From press reports and COG members' reaction to the legislation you would have thought that the legislature had done something very bad in passing HB 4001.

From press reports and COG members' reaction to the legislation you would have thought that the legislature had done something very bad in passing HB 4001. The *Salt Lake Tribune* said the legislature was a bully in wrestling the property tax bond from the county ballot and forcing them to use the sales tax (even though the county had been pleading for the switch and had urged the Governor to call the special session to enable the sales tax authorization instead of property taxes.)

County Councilman Joe Hatch said about the prioritization process: "The Legislature concocted this Rube Goldberg contraption. You run the marbles through it and nobody knows where they're going to come out in the end. It's very weird."

Councilwoman Jenny Wilson argued that the polls show the people believed they were voting for light rail, so that's what should be built. If the facts mean anything, the ballot used language including rail and highways and the statute enabling the vote required ¼ to be used for highway corridor preservation and the rest spent according to projects relieving the most congestion and accidents.

In the end, although many road projects were ranked higher on the priority list than rail, the COG skipped over road projects, funding only approximately $30 million for roads and the rest for transit. As Councilman Hatch said after the COG decided to ignore the law and skip over roads, "All you have to do is look at the bottom line: 97 percent of those funds are going to transit. How could I not be a happy camper with that?"

Perhaps the biggest insult to the legislature's passage of HB 4001 was UTA General Manager John Inglish's comments after the COG announced they would skip over highways to fund commuter rail and the Daybreak and West Valley Trax lines. He rose to announce that UTA has plenty of money to also fund the lowest-prioritized Draper and Airport lines. He said UTA could fund the construction on the 7-10 year timeline originally projected. This announcement was a surprise to both legislators and voters who were told the new tax was essential for the funding of the transit projects on the list.

The Legislature needs to consider this passive-aggressive reaction by local officials when considering their request to use more state funds for local B&C roads.

The Legislature needs to consider this passive-aggressive reaction by local officials when considering their request to use more state funds for local B&C roads. It seems the state doesn't have enough cooperation from the locals to justify using scarce highway funds which would be better used for state purposes than wasteful local spending.

A Tale of Two Counties

Davis County Commissioners voted to raise taxes again, this time by 37% to help fund the jail, despite a booming economy and large tax increases in previous years. Outgoing commissioners Page and McConkie managed to deliver one last jab to taxpayers in Davis County before they left office. This increase comes a few years after they attempted to raise taxes by 138%. The 138% increase was thwarted when your Taxpayers Association as well as citizen groups publicized the increase. Nearly 1,000 people attended the public hearing. This year Utah County is facing similar pressures as Davis County in funding costs of jail expansion. Commissioners Steve White, Jerry Grover and Larry Ellertson managed to fund their jail expansion with no tax increase. Instead they were able to ride the wave of a booming economy raising more revenues than expected to fund their jail expansion.

Taxpayers and citizens should be aware that the situation this year is a growing trend in both counties. Utah County has a history of being well managed, and being taxpayer friendly. Davis County has a history of raising taxes to pay for expanding government programs instead of setting aside money to pay for the operation of the jail.

Taxpayers and citizens should be aware that the situation this year is a growing trend in both counties. Utah County has a history of being well managed, and being taxpayer friendly.

City Property Tax Rates

Tax rates among cities vary significantly. Typically, larger cities have higher tax rates despite have larger property and sales tax bases per capita. The following table lists property tax rates for groups of cities based on population.

City Property Tax Rates

Group	Effective Tax Rate	Property Tax Base Per Capita[2]	Sales Tax Revenues Per Capita
15 Largest Cities	0.002907	$55,374	$159
16 to 30 Largest Cities	0.001906	$57,944	$143
31 to 50 Largest Cities[1]	0.001834	$68,080	$140
51 to 100 Largest Cities	0.001600	$44,944	$138
101 to 240+ Largest Cities	0.001600	$45,435	$124
All Utah Cities	0.002386	$55,680	$148

1. Figures include Park City. Excluding Park City, effective tax rate is 0.001775; Property tax base per capita is $50,479, and sales tax revenue per capita is $127.
2. Property tax base per capita excludes adjustments for RDAs.
Calculations by Utah Taxpayers Association based on Tax Commission data. Tax rates are calculated by dividing the sum of property taxes by the sum of taxable valuations for each group. Similar approach is used to calculate property tax base per capita and sales tax revenues per capita.

In this comparison, sales tax revenues are used instead of sales tax base to account for statutory sales tax distribution formula in which revenues are distributed on a 50-50 split between population and point of sale. Property tax base per capita is not adjusted for RDA diversions since RDAs are generally created by cities in order to increase their sales tax base (at the expense of other cities).

Association Hosts Annual Pre Legislative Conference.

Date: Thursday, January 11th, 2007
Time: 9 am
Location: Room W135, State Capitol

Agenda

9:00 Introduction
9:05 Senate majority perspective: Sen. Curt Bramble, Senate Majority Leader
9:20 House majority perspective: Rep. Greg Curtis, Speaker of the House
9:35 Governor's perspective: Robert Spendlove, Governor's Office of Planning and Budget
9:50 Transportation reform:
Congestion pricing - Rep. John Dougall
Rail/ Roads prioritization process- What has been done so far? - Rep. Becky Lockhart, Sen. Sheldon Killpack
Rail/ Roads prioritization process- future legislation- Rep. Wayne Harper
Corridor preservation bond - Sen. Sheldon Killpack

10:30 Education reform : Speakers TBA
-differential pay
-performance pay
-splitting school districts
-vouchers

11:00 Welfare expenditure report: Rep Mike Morley
11:10 Truth-in-Bonding: Rep. Greg Hughes
11:20 Severance tax trust fund: Mark Buchi, Tax Review Commission
11:30 Utah Taxpayers Association's 2007 agenda

Please RSVP to brina@utahtaxpayers.org or call 972-8814.
Admission is free.