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The Utah Taxpayer

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January 2008 Articles

State Expenditure Growth: Leavitt, Walker, Huntsman

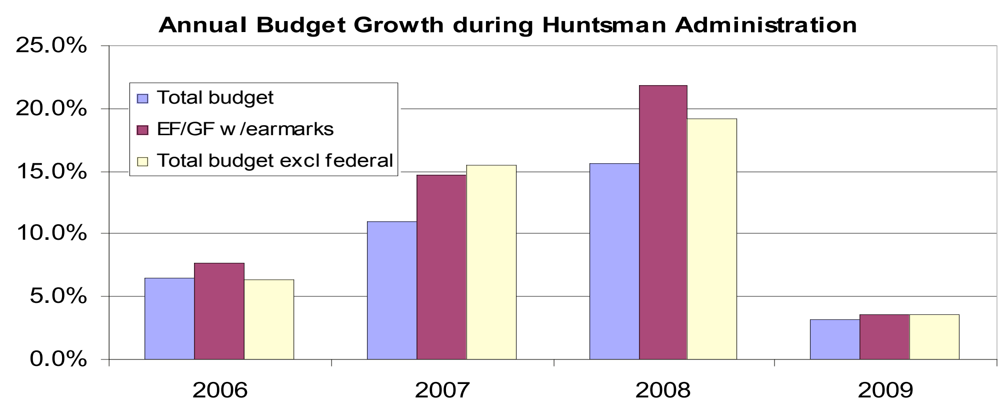
Despite modest growth in Gov. Huntsman's FY2009 budget proposal, annualized government expenditure growth in the Huntsman era exceeds budget growth during the Leavitt and Walker eras, as the following table illustrates. While ultimately the legislature has the power of the purse and authorizes all appropriations, in this analysis spending is compared for Governors' administrative terms.

Expenditure	Leavitt	Walker	Huntsman
Education/general/earmarks	5.6%	11.2%	11.7%
Total budget excl federal	6.0%	6.7%	10.9%
Total budget	6.4%	6.1%	8.9%

Calculations by Utah Taxpayers Association based on data from the Governor's Office of Planning and Budget. FY09 is compared to FY08 without supplementals. FY08 budget growth uses FY08 with proposed supplementals and FY07actual final budget. Previous

Budget Growth under Huntsman

Budget growth during the first Huntsman term has been fueled by a growing economy and by pressure to compensate for the lean years of FY2002, FY2003, and FY2004. Education and general fund expenditures, including earmarks, were almost 4% lower in FY2004 than in FY2001. The following chart shows annual expenditure growth during the Huntsman administration. Note: Huntsman was elected in 2004 and took office in 2005. His first budget was for FY2006.



Calculations by Utah Taxpayers Association based on data from Governor's Office of Planning and Budget. FY09 is compared to FY08 without supplementals. FY08 with supplementals is compared to FY07actual final budget. Previous years use actual final budget figures.

State expenditure growth: past five and ten years

The following chart shows government expenditure growth over the past five and ten years. FY2009 figures are projections and do not include supplemental appropriations that will be approved in

State Expenditures Compound Annual Revenue Growth (CAGR)

Expenditure	CAGR 1999 to 2009	CAGR 2004 to 2009
Education/General Funds incl earmarks	6.7%	11.6%
Total excluding federal	7.2%	10.1%
Total	6.8%	8.4%
Estimated population/inflation	5.3%	5.8%
Estimated personal income	7.0%	8.0%

Calculations by Utah Taxpayers Association based on data from the Governor's Office of Planning and Budget, Bureau of Economic Analysis, and Bureau of Labor Statistics. Budget. FY09 budget growth compares FY09 to FY08 without supplementals. FY08 budget growth uses FY08 with proposed supplementals and FY07actual final budget. Previous years use actual final budget figures.

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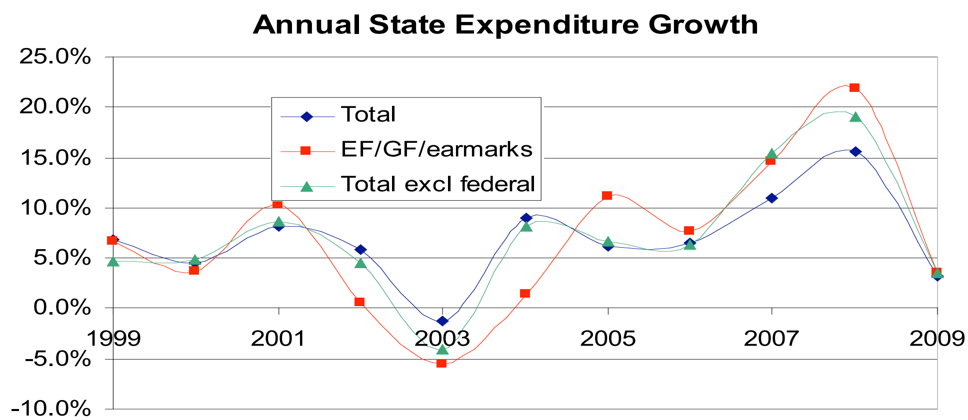
More than half of all education and general fund revenues are individual and corporate income taxes, which are highly volatile.

the 2009 Legislative session. Government growth will easily exceed combined population growth and inflation for both time periods. From 1999 to 2009, government expenditure growth will be in line with growth in personal income, while annualized government growth from 2004 to 2009 will exceed annualized personal income growth (10.1% vs. 8.0%).

The following graph shows annual changes in government expenditures from 1999 to Huntsman's proposed 2009 budget. Growth in education and general fund expenditures, including earmarks, actually decreased in 2003, and was flat in 2002 and 2004. However, these three lean years were more than offset by significant increases in 2005 (11.2%), 2006 (7.6%), 2007 (14.6%), and 2008 (21.9%).

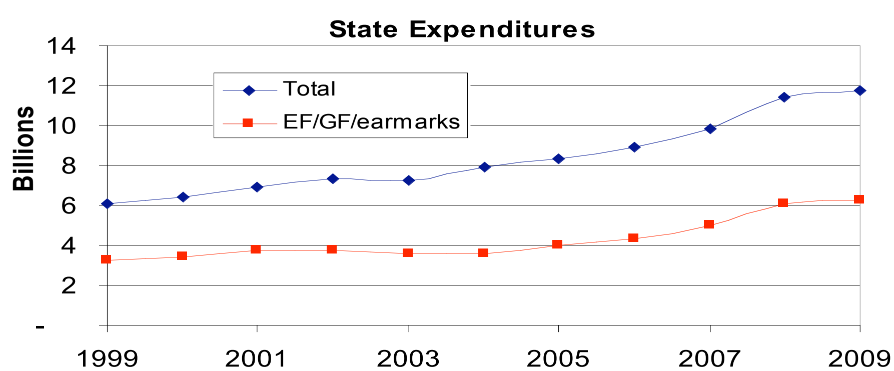
The graph shows that education and general fund expenditures are more volatile than total government expenditures. More than half of all education and general fund revenues are individual and corporate income taxes, which are highly volatile.



Calculations by Utah Taxpayers Association based on data from Governor's Office of Planning and Budget

During the 10-year time period from 1999 to 2009, total government expenditures will have nearly doubled.

The following chart illustrates the history of state government spending since 1999. During the 10-year time period from 1999 to 2009, total government expenditures will have nearly doubled.



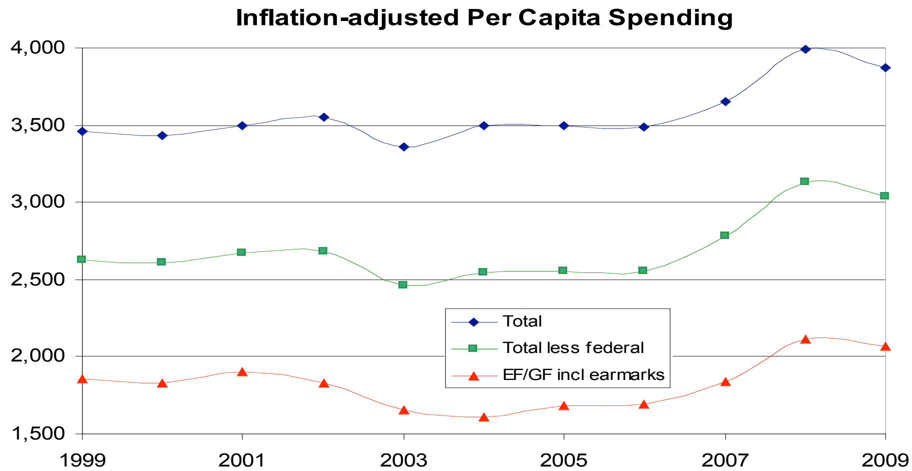
Calculations by Utah Taxpayers Association based on data from Governor's Office of Planning and Budget

Inflation-adjusted Per Capita Expenditures: Steady Increase

Total state expenditures will increase 12% from 1999 to 2009 after adjusting for inflation and population growth. Education and general fund expenditures will increase by 11%.

The chart shows a slight decrease in real per capital expenditures from FY08 to FY09, and there are two reasons for this decrease. First, Huntsman's 2009 budget proposal is only 3.2% higher than FY08's pre-supplemental budget. Second, this chart includes supplementals for FY08 but not for FY09, since FY09 supplementals won't be determined until next year

Typically, total state expenditures hover between 12.5% and 13.0% of total personal income.

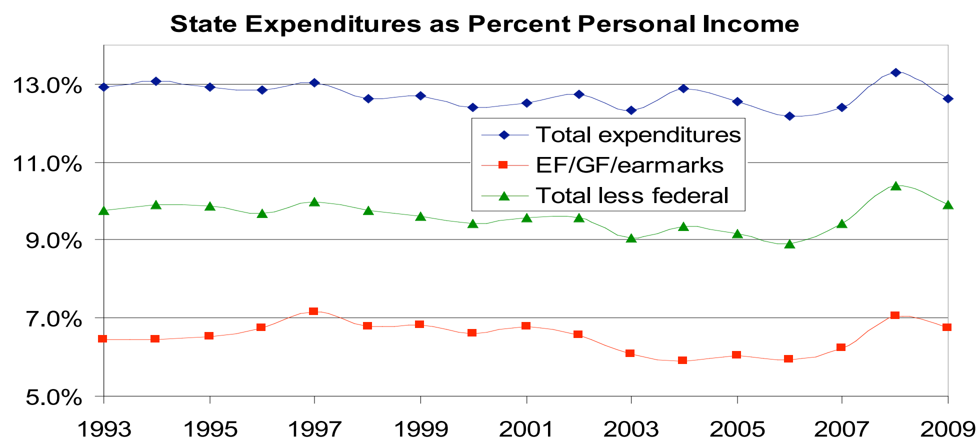


Calculations by Utah Taxpayers Association based on data from Governor's Office of Planning and Budget, Census Bureau, and Bureau of Labor Statistics. FY09 excludes supplementals.

State Expenditures as a Percent of Personal Income

Total state expenditures as a percent of income have changed very little in recent years, as shown by the following graph. Typically, total state expenditures hover between 12.5% and 13.0% of total personal income. Education and general fund expenditures (including earmarks) have increased slightly in recent years, from about 6.4% in the early 1990s to about 7.0% in 2008.

Utah government revenues continue to outpace standard benchmarks for government growth.



Calculations by Utah Taxpayers Association based on data from Governor's Office of Planning and Budget and Bureau of Economic Analysis FY09 excludes supplementals.

Revenue growth outpaces growth in population /inflation and personal income

Utah government revenues continue to outpace standard benchmarks for government growth. From 2002 to 2007, growth in every major source of revenue except for motor fuel tax exceeded growth in personal income and combined population and inflation.

Major Revenue Compound Annual Revenue Growth (CAGR)

Revenue source	CAGR 1997 – 2007	CAGR 2002 – 2007
Individual income tax	7.6%	9.8%
Corporate income tax	8.3%	27.5%
State sales tax	5.3%	7.3%
Property tax	6.5%	7.1%
Motor fuel tax	5.5%	2.6%
Population/inflation	5.1%	5.6%
Personal income	6.6%	6.5%

Calculations by Utah Taxpayers Association based on data from Utah State Tax Commission, Census Bureau, Bureau of Economic Analysis, Bureau of Labor Statistics
Notes:1.Property taxes are local revenues, but 56% (in 2007) are used for K-12 education, which is primarily a state function.
2.State sales tax rate was reduced in FY1998

From 1997 to 2007, all major revenue sources grew faster than combined inflation and population growth and only state sales tax and motor fuel tax grew slower than personal income, while property taxes grew at a rate nearly equal to personal income.

FY2007 is the most current available data for tax revenues.

Every square foot of retail and residential space General Growth Properties plans on putting in this space will be built somewhere by someone without a subsidy.

My Corner - by Howard Stephenson

RDA abuse in the Granite School District

Cities are assaulting the Granite School Board with requests for education taxes to be given to developers. Holladay, South Salt Lake, Taylorsville and West Valley City are asking the school district to pony up more than $100 million over the next 20 years, so those cities can increase their sales tax base. Granite's school board members should reject all these redevelopment projects. It's hard to believe their appeals for ever increasing education funding, if they so willingly give away $100 million.

All of these projects are flawed, but Holladay's Cottonwood Mall RDA is the worst offender. For this project alone, the city is asking for $52 million from the Granite School District. In its heyday, the Cottonwood Mall was one of the Salt Lake Valley's premier shopping destinations. Created in 1962 as one of the nation's first enclosed malls, it was the place to shop for decades.

Over time it has been outpositioned by the Fashion Place and Southtowne malls, both of which are located just off major interstates. With shoppers dwindling, one after another retailer left, and today only Macy's remains. Holladay and the mall's owner, General Growth Properties, hope to reinvigorate the area by investing $552 million in the property. This investment will build 500-plus residences, and more than half a million square feet of retail space.

By any objective standard, GGP's plans are spectacular. It is exactly the kind of development that any community would love to have. However, the promises Holladay and the RDA backers are making are hollow. The proposed Cottonwood Mall RDA will not create one job, not one residence. Not one. **Every square foot of retail and residential space General Growth Properties (GGP) plans on putting in this space will be built somewhere by someone without a subsidy**.

Should education taxes be used to subsidize GGP's profits? We already spend less per student than any other state in the nation.

Residential office space and retail development follows population, economic activity and disposable income. They will **naturally** go where people are and have money to spend. Subsidizing a developer to build residential or retail space—even one as beautiful as what's proposed here—simply rearranges where the retail and residential space goes.

In essence, GGP wants nearly $52 million from the Granite School District. In exchange, they're not giving a single thing—because this retail, office and residential space will be done whether a subsidy is provided or not.

Holladay says the revenue stream they are projecting amounts to "found" money. That is simply not true. Holladay City and GGP didn't discover hundreds of thousands of dollars just waiting for a right-thinking "investor" to pick up. They want to steal this retail and residential development from another city, perhaps Taylorsville, South Salt Lake, West Valley City or Magna, and put it on their land.

GGP says that this is the only project that will allow them to earn the kinds of returns on their investment that they expect, and even then they aren't going to receive the double-digit return they typically aim for. That may be true—but **should education taxes be used to subsidize GGP's profits**? We already spend less per student than any other state in the nation.

Cost of redevelopment agencies to Utah schools

Year	Total Statewide	Education Portion
1993	$ 26,542,802	$ 14,598,541
1994	$ 30,615,554	$ 16,838,555
1995	$ 31,400,822	$ 17,270,452
1996	$ 36,407,978	$ 20,024,388
1997	$ 44,409,344	$ 24,425,139
1998	$ 48,235,019	$ 26,529,260
1999	$ 49,760,177	$ 27,368,097
2000	$ 54,894,603	$ 30,192,032
2001	$ 64,503,098	$ 35,476,704
2002	$ 70,151,327	$ 38,583,230
2003	$ 70,636,895	$ 38,850,292
2004	$ 87,021,973	$ 47,862,085
2005	$ 90,724,038	$ 49,898,221
Total	$705,303,630	$ 387,916,997

Source: Utah State Office of Education data, with calculations by Utah Taxpayers Association

GGP and Holladay say that this site will remain vacant, or nearly so, without this RDA. GGP has even gone so far as to say that without it, they'll tear down the buildings, challenge the property valuation, just to reduce their tax liability. To a certain degree, they're being disingenuous on this point: GGP told the Taxing Entities Committee (TEC) that they wouldn't sell this property for the approximately $30 million the site is currently valued at, even if the RDA doesn't go through. (I'll return to this point in a minute.)

I'm not an engineer, so I'll take their word when they say there are substantial infrastructure costs that have to be borne before that land can be built on. But to assume that no one will build on that site for the next 20 years is just absurd. As Holladay Mayor Dennis Webb noted at last month's TEC meeting, the LDS Church is putting $1 billion into the City Center project without any taxpayer subsidies. GGP and Holladay city have noted that Larry Miller might be interested in building on that property. A big box retailer might go on that property. Both of these are plausible uses for that land, and neither of them would require an RDA.

Of course, GGP "doesn't sell properties," as they told the TEC last month. At least, not usually. However, they were quite clear that there are circumstances in which they have sold properties, and would sell this property. The fact that GGP has contemplated a price at which they wouldn't sell the land means that there is a price at which GGP would sell the land. And for discussions of Larry Miller to mean anything, even as something Holladay would prefer to avoid, they have to mean that GGP would sell the land to Larry Miller, for the right price. In other words, **GGP has no more interest in letting that land go undeveloped, giving them no return, than Holladay, Salt Lake County, or the Granite School District does.**

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Finally, let me point out that this RDA is just the first of 5 RDAs already in the Granite School District's pipeline that the Granite School Board will be asked to approve in the next several months. If the Granite School Board approves the Cottonwood Mall's subsidy, how will they be able to oppose any of these other RDAs?

RDAs can be an appropriate economic development tool. When cities use them to steal residential and retail development from each other, as Holladay is trying to do with this one, they are nothing but a drain on taxpayer dollars. **This RDA—and the other redevelopment projects currently before the Granite School Board—create no economic benefit, and will cost taxpayers and school kids tens of millions of dollars. I encourage the Granite School Board to vote "No" on all these RDAs.**

Why support RDAs that take money from Utah schools?

Legislators in the area affected by the Cottonwood Mall RDA have been lobbying the Granite School Board to support diversion of $50 million annually to support the project. Senator Pat Jones, Rep. Carol Moss and Rep. Phil Riesen have recently emphasized the need to protect public edcuation funding. Unfortunately, their support of the Cottonwood Mall RDA contrasts starkly with their statements on behalf of public education.[i] (For a thorough explanation of why the Cottonwood Mall RDA is not economic development, see "RDA abuse in the Granite School District," in the January 2008 issue of The Utah Taxpayer.) Rep. Lynn Hemingway has also been advocating for the $50 million diversion of Granite School funds.

[1] While the legislators highlighted here are all Democrats, many Republican legislators have also been strong supporters of other RDA abuse.


Senator Pat Jones


Rep. Carol Moss


Rep Phil Riesen


Rep. Lynn Hemingway

Sen. Pat Jones

"Over 13 years, the fiscal impact [of vouchers] would be $327 million. . . . I would really like to understand and know how that cannot hurt public education, with that kind of fiscal impact." (Senate Floor debate, HB 148, Education Vouchers, Feb. 9, 2007)

In the floor debate over vouchers this past session, Senator Jones spoke passionately about the cost of vouchers. Given the fiscal impact of RDAs on public education, we were surprised that she supports the proposed Cottonwood Mall RDA. Over the last 13 years, redevelopment projects have already cost Utah schools $387.9 million, which is significantly more than Sen. Jones said vouchers would have cost over the same number of years.

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Rep. Carol Moss

"The issue is what we fund with our tax dollars, and the accountability that we must expect and demand for those who spend tax dollars."(House floor debate, HB 148, Education Vouchers , Feb. 2, 2007)

During the House floor debate on vouchers, Rep. Moss expressed concern that accountability follow taxpayer dollars. Unfortunately, her concern for accountability doesn't extended to a private developer like General Growth Properties, who is hoping to get $50 million in education taxes with no strings attached.

Rep. Phil Riesen

"Adequate, fully funded, meaningful education is at the top of the list. Let's stop giving lip-service and Band-aid approaches to the problems facing education. Let's start listening to and acting to fill the needs of our educators who struggle daily with low salaries, huge class sizes, and inadequate school supplies. We can and we must do much better than last place in . . . per pupil spending. We need to fix and fully fund education now, not later."(Phil Riesen's Candidate Announcement speech, Feb. 23, 2006)

To fully fund education "now, not later," Rep. Riesen supports having the Granite School Board give $50 million in education taxes to one of the largest developers in the United States. In exchange, the school district would get no net financial benefit.

If reducing average class size to 15 requires the same proportional increase in capital costs as this analysis projects in salaries and benefits, those capital costs could easily exceed $10 billion.

When smaller class sizes are what increase the number of teacher union dues payers, don't expect the unions to make teacher pay a higher priority than class size.

The cost of smaller class sizes

Since the Legislative Auditor General released his report on the funds the Legislature appropriated to reduce the average class size in Utah, the pundits have been wringing their hands. Apparently to everyone's surprise and dismay, Utah class sizes are still the largest in the nation. For anyone even vaguely familiar with Utah, this audit only confirmed what we and many in the business community have said for years about Utah education: class size reduction is an unrealistic goal in Utah.

The educational merits or demerits of class size reduction have been debated for years. Parents intuitively prefer them, but the large scale tests of class size reduction show little improvement in student achievement unless average class size gets down to about 15. The cost of achieving that average class size would be monumental. And there are a host of other proven education reforms that would provide much larger gains in student achievement at a fraction of the cost.

Utah's average elementary class size is 26. In addition, Utah classrooms will swell by more than 160,000 over the next decade. On top of that, published reports indicate that Utah began the current school year with hundreds of vacant teaching slots.

This teacher shortage means that Utah's current average salary and benefits package of $55,034 per year is not attracting enough applicants to meet existing demand. Those vacant teaching positions, plus the others necessary to bring Utah's average class size to 15, would be even more expensive. For illustration purposes, however, we'll assume the cost only goes up to $60,000. That means Utah would have to spend another $516 million every year just to hire the 8,600 teachers necessary to get Utah class sizes down to 15.

That calculation ignores the on-going surge in Utah enrollment. When the 160,000 new students hit Utah schools over the next 10 years, Utah will need another 6,222 elementary teachers to maintain an average class size of 15. Assuming the same $60,000 total compensation package for these teachers means Utah would pay $373.3 million for these teachers. All told, Utah would need to hire nearly 15,000 more teachers, at a total ongoing cost of $889 million.

Add in the capital costs necessary for each of these teachers to have their own room, and the cost of reducing class size to 15 becomes staggering. As our October study, "Education Growth Projections in Utah: 2008-2022," showed, Utah taxpayers will have to purchase $6.365 billion in land and buildings to house the surge of students entering Utah schools. If reducing average class size to 15 requires the same proportional increase in capital costs as this analysis projects in salaries and benefits, those capital costs could easily exceed $10 billion.

How much would meaningful class size reduction cost? This analysis shows we'd have to increase ongoing education spending by nearly $900 million per year. And our capital costs would dwarf that increase. Given class size reduction's mixed record in raising student achievement and Utah's unique demographics, class size reduction seems a fool's errand.

Would it be possible, even laudable to instead increase average teacher pay, and thereby attract the best and the brightest into Utah's classrooms? When smaller class sizes are what increase the number of teacher union dues payers, don't expect the unions to make teacher pay a higher priority than class size.