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The Utah Taxpayer

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September 2009 Articles

Reduced congestion spells tremendous savings, increased economic growth

Two new reports on congestion in Utah indicate the importance of an efficient transportation system to Utah's economy. The Texas Transportation Institute's (TTI) annual mobility report shows that in 2007 congestion cost Utah drivers and businesses $287 million in wasted fuel and time. According to a new report by the Reason Foundation, investing now in a transportation system that eliminates congestion will allow Utah's economy to grow by an additional $700 million per year by 2030.

Policy makers have long known that an efficient transportation system is key to Utah's economic growth. Unfortunately, policy makers have not always translated that understanding into policies that eliminate congestion. According to the TTI report, the average Utah driver on the road during peak travel times faces 27 hours of delays each year. During those 27 hours, each driver wastes 18 gallons of gas.

In total, Salt Lake commuters endure 14.6 million hours of annual travel delay, while commuters in the average city of a similar size spend just 9.0 million hours stuck in traffic. In other words, Salt Lake commuters endure 61 percent more time stuck in traffic than their national counterparts.

That delay translates into 9.5 million gallons of wasted gas in Salt Lake, and just 5.9 million gallons in comparably sized cities. Salt Lake drivers wasted 61 percent more fuel than drivers in similarly situated cities. That wasted time and fuel comes at a very steep cost. Congestion costed Salt Lake commuters $287 million, while congestion costed commuters in comparable cities just $186 million.

Total traveler costs of congestion in Salt Lake City vs. the average comparable city

Total Traveler Congestion	Salt Lake City	Comparable cities
Travel delay (1000 hours)	14,557	9,002
"Wasted" fuel (1000 gallons)	9,468	5,879
Congestion cost (millions of 2007 dollars)	287	186

While the TTI report shows the costs Utahns bear due to congestion, the Reason Foundation study indicates the economic growth resulting from investing to reduce and prevent congestion. According to "The effect of traffic congestion on regional economic performance," for every 10 percent decrease in congestion, a region's economic output increases by 1 percent. The economy of the greater Salt Lake region (defined to include all areas within 25 minutes of downtown Salt Lake City) could grow an additional $700 million per year, if free flow traffic conditions were maintained.

Perhaps the most interesting aspect of the Reason Foundation report is its analysis of what kinds of transportation investments are most effective in driving economic growth.

The Reason Foundation report indicates that focusing congestion relief on improved access to the downtown central business district would result in a four to ten percent increase in the regional economy. Improved access to a major airport would increase the regional economy by two to eight percent. However, focusing congestion relief on access to major malls, suburbs and universities has the potential to increase the regional economy by six to thirty percent.

According to this analysis, Utah policy makers should focus their transportation investments on providing greater access to the malls, suburbs and the region's major universities, instead of improving access to the Salt Lake airport.

Estimated change in economic performance from eliminating congestion, by target of congestion relief

Target of congestion relief	Increase in regional economy
Downtown central business district	4 to 10%
Major airport	2 to 8 %
Major mall, suburbs and universities	6 to 30%

Source: Gridlock and growth: The effect of traffic congestion on regional economic performance, Reason Foundation.

That recommendation matches what your Taxpayers Association has long said about the ongoing effort to improve transportation to the Salt Lake airport. Traffic congestion is virtually non-existent to the airport, so improved access to and from the Salt Lake airport should not be a priority.

If Utah policy makers follow the Reason Foundation's recommendations and create free flow traffic, not only will Utah travelers avoid the costs described in the Texas Transportation Institute study, but the Reason Foundation estimates that by 2030 Utah's economy will grow by an additional $700 million per year. That kind of economic growth is why the Taxpayers Association has long emphasized the need for improved transportation, focused on reducing congestion.

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My Corner – Howard Stephenson

Gary Herbert has what it takes

Gary Herbert is one of the nicest people I have ever known, and I have counted him among my friends for many years. Despite our friendship, before he took the reigns I had my doubts about whether he had what it takes to be numero uno, especially in these economic times.

Prior to Governor Huntsman's appointment as ambassador to China, most of Utah's political world had seen Gary Herbert fulfill his Lt. Governor duties with a work ethic perhaps greater than anyone who had ever held the position. He was a workhorse for Governor Huntsman. But, in my opinion, being a workhorse Lt. Governor didn't necessarily prepare Gary (or any other Lt. Governor) to be an effective governor.

I was worrying about this concern shortly before Governor Gary Herbert's inauguration, and I asked my seatmate during the last General Session of the Legislature, Lt. Governor designee, Senator Greg Bell, "Why on earth would you accept a position which demands twelve and eighteen hour days, a relentless speaking schedule, countless rubber-chicken dinners and a significant pay cut?" Without hesitation he replied that after meeting at length with Gary Herbert and coming to know Herbert's character, it wasn't a hard decision at all. As Bell spoke I recalled an earlier chat I had had with then-Lt. Gov. Herbert.

Four days after the June 13 Republican State Convention I spoke with Herbert about what I thought was his lackluster convention speech to more than 2,000 delegates who were there to hear from their Governor-to-be. In my usual frankness (sometimes mistaken for rudeness), I told him it had been a mistake to talk so much about how great the Huntsman-Herbert administration had been. I thought he should have spoken of his vision for the state. He failed to identify for the delegates and the public what he was going to do about the "$700 million elephant in the room" (meaning the deficit the state faces from using the federal stimulus money to "back-fill" what would otherwise have been budget cuts in the 2010 budget).

Gov. Herbert announced the creation of the Utah Advisory Commission to Optimize State Government. He charged the commission to improve efficiency, enhance effectiveness and optimize performance.

Quote of the Month #1

"I will manage our state finances with the same discipline and frugality that is incumbent upon every individual and family…I believe what government we have ought to be well run and efficient … As Governor, I will lead the charge for government efficiencies in all we are tasked to do."

Governor Gary Herbert laying out his plan for fiscal responsibility.

Source: Gov. Gary R. Herbert, First Inaugural Address, August 11, 2009

I also took license to advise Herbert that if he was to survive in-party challengers in the 2010 election he shouldn't choose a running mate now, but instead bring on a Lt. Governor with experience in disaster cleanup, to cut the budget before the January session of the legislature. I suggested Fraser Bullock, who cleaned up the financial mess of the Olympics, or R. Todd Nielsen, who has spent his life as a forensic auditor cleaning up corporate disasters. I told Herbert he should have pledged to balance the budget without a tax increase. If he did not present a balanced budget for the 2010 General Session of the Legislature without a general tax increase, I said, he couldn't make it out of convention in his re-election bid.

As I today consider my brusque, (yet obviously) wise counsel, I recognize that he was displaying another of important leadership quality: patience. He listened politely while I vented and then told me thanks and that he would consider what I had said. Full of my own wisdom, I wondered whether Gary Herbert had what it takes to be Governor.

On August 11 Governor Herbert began proving me wrong. His inaugural speech was visionary, and inspiring. Then on September 3 he announced the creation of the Utah Advisory Commission to Optimize State Government. He charged the commission to improve efficiency, enhance effectiveness and optimize performance.

The Commission is chaired by former Governor Norman H. Bangerter (who as governor faced the challenge of balancing the state budget in similar economic times in the 1980s) with three vice chairs: Nolan Karras (former speaker of the house), Charlie Johnson (former chief of staff to

Governors Bangerter and Leavitt) and Fraser Bullock (businessman who is credited by Mitt Romney for saving the Salt Lake Winter Olympics). The commission also includes Pamela Atkinson, Neal Berube, Natalie Gochnour, and Ellis Ivory, Gayle McKeachnie, Steve Starks, and Lynne Ward. Ex-officio members will also include two Republicans – Senator Daniel Liljenquist, Representative Ronald Bigelow, and two Democrats – Senator Pat Jones and Representative David Litvack. Others will be asked to assist in selected components of this review.

Herbert has other qualities that I suppose are best described as prudent, confident, and able to keep his head when at least one about him was losing his.

The work of the Commission will be in two phases. Phase One Includes an immediate, timely and targeted review of near term activities. This phase is expected to last 10 to 12 weeks and will aid Governor Herbert in his FY2011 budget recommendations.

Phase Two Includes a more in-depth review, assessment and rethinking of state government activities and ways to improve the long-term effectiveness of state government. This phase is expected to take up to 12 months. The scope and people involved in the review will be refined on an ongoing basis. The Commission will formally involve others in this more in-depth review.

I was wrong to pre-judge the Lt. Governor who, I realize now, knew his position and didn't feel it appropriate to jump the gun until he was actually inaugurated. For me this shows that Governor Herbert has other qualities that I suppose are best described as prudent, confident, and able to keep his head when at least one about him was losing his. And all of those qualities show that Gary Herbert definitely has what it takes to be Governor.

Washington Watch – Congressman Jason Chaffetz


Rep. Jason Chaffetz

House Democratic attempts to increase government's control over health care have ignited quite a backlash among ordinary Americans, but the tax increases that are part of this package are not getting a lot of attention. They should, especially considering the trillions of dollars in tax increases that President Obama and Democrats in Congress have been proposing since January.

HR 3200, the House Democrat healthcare "reform" proposal, would increase taxes by $818 billion over ten years as outlined in the following chart:

The largest tax increases are the surtaxes on high-income households. These surtaxes are on *gross* income, not *net* income, which means that itemized deductions and personal exemptions will not be able to reduce these taxes. Capital gains and dividend income will be subject to these surtaxes as well. Much of this income is derived from pass-through entities such as LLCs, subchapter S corporations, and partnerships, most of which are small businesses.

HR 3200's $818 Billion Tax Increase

Tax Increase	Amount Over Ten Years
Surtax on high income	$544 billion
Play-or-pay payments by employers	$163 billion
Payments to exchanges by employers	$45 billion
Tax on uninsured	$29 billion
Other taxes	$37 billion

Source: Congressional Budget Office/ Joint Committee on Taxation

The surtax will be imposed on high income households as follows:

-1.0% on gross income above $350,000 for married and $280,000 for single
-1.5% on gross income above $500,000 for married and $400,000 for single
-5.4% on gross income above $1 million for married and $800,000 for single

The House Democrat healthcare "reform" proposal, would increase taxes by $818 billion over ten years.

The 1.0% and 1.5% tax rates may be doubled if projected healthcare cost savings are not realized.

The play-or-pay taxes on employers who do not offer suitable health care will range from

-2% of wages for businesses with payroll between $250,000 and $300,000
-4% of wages for businesses with payroll between $300,000 and $350,000
-6% of wages for businesses with payroll between $350,000 and $400,000
-8% of wages for businesses with payroll greater than $400,000

Individuals who do not obtain insurance will pay a tax of 2.5% of income above the filing threshold, which is the amount of total personal exemptions and the standard deduction.

Top Marginal Rates Will Reach or Exceed 50%

With the 5.4% surtax proposed in HR 3200, top marginal federal income tax rates will reach 45% because President Obama has pledged to allow top marginal federal income tax rates to increase from the current 35% to 39.6% once the EGTRRA/JGTRRA tax cuts expire. Including state income tax rates of slightly more than 5%, top marginal tax rates will approach 50%, even after adjusting for deductibility of state income taxes on federal income taxes. Top marginal tax rates will be much higher than 50% in some states like California and New York. In addition to these taxes, all ordinary income is subject to a Medicare tax of 2.9%, split evenly between employer and employee. (In 2009, Social Security taxes are not imposed on income exceeding $106,800).

Many on the Left have dismissed concerns about 50% marginal tax rates. Prior to 1980, federal income tax rates were as high as 70%. However, the Left does not mention that the bipartisan Tax Reform Act of 1986, which lowered top marginal rates from 50% to 28% in a revenue neutral manner, eliminated many large loopholes including passive loss deductions and non-mortgage interest deductions. Also, itemized deductions and personal exemptions were not phased out for higher income individuals as they have been since the Pease limitation was introduced in the early 1990s. While this limitation has been reduced in recent years and will disappear in 2010, Obama will allow the limitation repeal to expire. In 2011, itemized deductions will be disallowed by 3% of income exceeding a certain threshold with a maximum reduction of 80%. Personal exemptions for high-income households will be reduced as well. Neither of these reductions are to be confused with Obama's proposal to reduce the rate at which itemized deductions can reduce taxable income.

After the tax increases for these "reforms" are passed, we can expect even more tax increases from the President and Congress when they start talking about deficit reduction.

The HR 3200 tax increases cover much of the cost of "reforming" health care, and these tax increases are in addition to the cap-and-tax increases that were recently passed to "reform" energy and environmental policy. After the tax increases for these "reforms" are passed, we can expect even more tax increases from the President and Congress when they start talking about deficit reduction.

Are We Taxing the Rich Enough Yet?

Proponents of HR 3200 argue that the tax increases will largely impact the wealthy, who need to pay more taxes anyway. Data from the Congressional Budget Office (CBO) indicate otherwise. The CBO annually calculates tax burdens as a percent of comprehensive income for various income groups. The CBO data includes all federal taxes such as individual income, Social Security, Medicare, corporate income, and excise. Comprehensive income is a very broad measure of income and includes ordinary income, capital gains, dividends, interest, employer share of payroll taxes, corporate income taxes, transfer payments, in-kind benefits such as Medicaid and Medicare as well as other sources of income.

The following data, for tax year 2006, clearly show that the federal tax system is already very progressive.

The new tax changes passed this year are targeted towards lower and middle income households

The new tax changes passed this year – Making Work Pay tax credit, expanded EITC, and increased refundability of the child tax credit – are targeted towards lower and middle income households. This will make the federal tax system even more progressive than it is currently and the surtaxes will increase the progressivity even more.

Utahns should be concerned about these tax increases and the negative impact they will have on economic growth.

Federal Tax Burdens as Percent of Comprehensive Income, 2006

Income Quintile / Percentile	Average Pre-tax Comprehensive Income	Tax Rate as Percent Comprehensive Income
Bottom 20%	$17,200	4.3%
Second 20%	$39,400	10.2%
Middle 20%	$60,700	14.2%
Fourth 20%	$89,500	17.6%
Top 20%	$248,000	25.8%
Top 10%	$366,400	27.5%
Top 5%	$564,000	29.0%
Top 1%	$1,743,700	31.2%

Source: Congressional Budget Office

U.S. public education hiring teachers at remarkable pace

Utahns should be concerned about these tax increases and the negative impact they will have on economic growth.

Two or three years ago, the national and Utah media were abuzz with concerns about a statewide and national teacher shortage. Today reports abound noting the number of teachers losing their jobs. Recently released data from the U.S. Census Bureau suggests those reports are different sides of the same coin.

According to the latest edition of the U.S. Census Bureau's Public Education Finances: 2007, during the 2006 - 2007 school year, 3,142,202 teachers taught 48,441,473 students. Taken by themselves, those numbers are passé. But when compared with the previous years data, a remarkable fact jumps out. In 2006-2007, the U.S. public education

Total students and teachers in U.S. public schools 2005 to 2007

	Total Students	Total Teachers
2005-2006	48,380,507	3,121,638
2006-2007	48,441,473	3,142,202
Annual Increase	60,966	20,564

Source: Calculations by the Utah Taxpayers Association based on data from Education Intelligence Agency Communique, August 10, 2009

system enrolled 60,966 more students than it did the previous year. To educate those new students, the U.S. public education system hired 20,564 new students, or nearly 1 new teacher for every 3 new students.

This data suggests that U.S. public education expanded at an unprecedented rate while the economy was booming. Once the recession began, however, school districts across the country found they could do without as many teachers as they previously thought were necessary.

Utah teachers have largely been spared the cuts their counterparts across the country have faced. However, the looming $700 million hole in the next budget suggests that may not last. Even worse, several Utah school districts depleted their "Rainy Day" fund this year, despite warnings from lawmakers and the Utah Taxpayers Association that next year's budget will be even worse. Without federal bailout money available, public education cuts will be more severe, and may mean Utah follows the rest of the nation in increasing class sizes by laying off teachers.

2003 and 2004 were some of the most profitable years ever for the hotel industry, but 2008 and 2009 have seen some of the worst conditions the industry has ever seen.

Salt Lake City's 1,000 room, government-owned hotel…
Utah does not need another publicly funded boondoggle

As noted in the August 2009 edition of The Utah Taxpayer, Salt Lake County is studying the viability of building its own 1000-room hotel immediately adjacent to the Salt Palace Convention Center. The failures of iProvo and UTOPIA have amply demonstrated why government should not compete with the private sector. However, there are abundant additional reasons for opposing a publicly-owned hotel.

The hotel industry has experienced a wild ride over the past decade. 2003 and 2004 were some of the most profitable years ever for the hotel industry, but 2008 and 2009 have seen some of the worst conditions the industry has ever seen. After the venerable Watergate Hotel sat empty since 2007, six weeks ago the bank holding the Watergate's loan placed the hotel on the auction block. In June, hotel loans worth $596 million defaulted, including loans on properties in destinations like Phoenix, Las Vegas and New York.

Susan Merrick, managing director and U.S. CMBS group head at Fitch ratings explained to CNBC the hotel industry's precipitous fall. "Hotel performance has continued its expected sizable decline, with revenue per available room down 20 percent to date, and cash flows [are] expected to decline by at least 35 percent from peak levels."

Unfortunately, these negative trends are not isolated to particular segments of the hotel industry. Marriott Intenational's second quarter earnings report showed a drop of 76 percent in quarterly earnings. Marriott International operates and franchises the Marriott, Ritz-Carlton, Residence Inn and Courtyard brands. Similarly, Accor, which operates Motel 6, Novotel, Ibis and MGallery brands, saw its second quarter sales drop 9 percent. The combined brands of these two major companies run the gamut of the hotel spectrum.

Until the hotel industry has a better sense of traveling patterns after the recession is over, hotel financing will be nigh impossible, at least using private financing

Even well established hotel brands are suffering, so recent hotel loans are faring especially poorly. Merrick continued, "With no immediate revival of demand in sight and recent-vintage hotels loans unlikely to meet projected performance levels, loan sponsors are increasingly depleting reserve accounts or are being forced to come out of pocket to service debt shortfalls." Both of these increasingly common debt payment techniques suggest the potential for default in the not-too-distant future.

This abrupt fall in the hotel industry has two central causes. First, the worldwide economic recession has forced individuals and businesses to cut back on travel. Many companies no longer pay for spouses to accompany employees on business travel, and even more companies are cutting back on employee travel altogether.

Second, last year's spike in gas prices has fundamentally changed the way Americans view travelling. For example, 2007 brought the first dip in vehicle miles travelled since 1980. With reliably stable measures of how the public views travelling, like VMT departing from their historical trends, the hotel industry and its private sector financiers are loathe to risk their own capital in such unknown territory.

Until the hotel industry has a better sense of travelling patterns after the recession is over, hotel financing will be nigh impossible, at least using private financing. Because counties can simply raise taxes to pay for bad investments, public financing remains an option. Though it's hard to understand why the Salt Lake County Council would be a better judge of the hotel market than people risking their own money.

Association hires new Research Analyst

After 4 years with the Utah Taxpayers Association Andrew Stephenson has taken a position with Senator Bob Bennett's re-election campaign. Working part time for the Association over the past year Andrew has proven himself as a successful political consultant creating victories in two of the

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most highly contested legislative races in the last general election. Andrew will continue to consult with the Taxpayers Association's political action committee.

Jacquelyn Evans is the new Research Analyst for the Utah Taxpayers Association. As a former campaign manager for United States Congressman Jeff Fortenberry (NE-1) and Deputy Regional Field Director for California Governor Arnold Schwarzenegger, Jacki brings a unique set of political skills and experience to the Research Analyst position. Her experience in both policy research and grassroots network development will be essential in helping analyze and communicate the recommendations of the Utah Taxpayers Association.


Jacki Evans

Jacki has recently relocated to Salt Lake City, Utah from Seoul, South Korea where she spent nearly two years as an English language debate instructor to high school and college students. With her background in education, Jacki is particularly passionate about education funding through taxation. Noting Utah's increasing number of public school students and the low rate of per pupil spending, Jacki hopes to work toward improved education choices for Utah families. In addition, Jacki has experienced first hand the technological advances to education that are enhancing achievement in overseas classrooms. "Students in South Korea are utilizing the latest technology in their classrooms and becoming more competitive in the global market. And they're not the only ones," Jacki said. "The Utah Taxpayers Association has clearly shown great dedication to improving education opportunities in Utah while still supporting smart tax policy. I am excited to join an organization that is advocating for innovate solutions and responsible fiscal policy."