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THE UTAH TAXPAYER

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The Least Bad Way Forwad: iProvo and UTOPIA

Two of the largest municipal telecom networks in the country – iProvo and UTOPIA – have failed to fulfill the promises their founders made. However in seeking solutions, the projects are on very different courses. Specifically, Provo Mayor John Curtis and the Provo City Council are looking for realistic ways to mitigate taxpayer exposure in repaying iProvo's $39 million in bonds. UTOPIA, its board and management, however, remain convinced that the way out of the maze is another infusion of borrowing on top of their $262 million in taxpayer-backed bonds.

In both cases, taxpayers are on the hook for millions upon millions of dollars. For the sake of taxpayers in Provo and the eleven UTOPIA cities, someone needs to find a way to help them succeed, or at least fail less badly. Finding and implementing those solutions demands a willingness to acknowledge past failures and consider all possible solutions. Based on your Taxpayers Association's many years of interactions with both iProvo and UTOPIA, iProvo is ready for that discussion. UTOPIA is not.

UTOPIA

UTOPIA continues to limp along. Their inability to keep their operating expenses in line with budgets (as detailed in the May 2011 issue of The Utah Taxpayer) prompted leaders in the Utah Legislature to have the Legislative Auditor General's Office conduct a comprehensive management and financial audit of UTOPIA. Your Taxpayers Association will report on the audit's findings when it is completed in November.

UTOPIA remains secretive as ever about their plans. Since their Board of Directors meetings must be open to the public, the Executive Committee, whose meetings are never open to the public, makes all the organization's substantive decisions.

In our experience with their Board of Directors, UTOPIA has yet to invite public comment on any item on their agendas. Each agenda notes, "This is a Public Meeting, but not a Public Hearing." We have seen nothing but thinly-veiled attempts at circumventing the Open and Public Meetings Act, and explicit animosity towards any organization or individuals who express dismay or concern with the way UTOPIA operates.

iProvo

For many years, iProvo was in the same bunker mentality as UTOPIA is today. iProvo was launched with $39 million in taxpayer-backed bonds. This money built an open-access, fiber-optic telecom network designed to reach every home and business in Provo. Provo City owned and operated the network, while multiple retail providers used this network to sell TV, voice and data services to Provo residents and businesses.

Provo succeeded in building the network, but subscription revenues never paid the combined cost of operations and debt service on the bonds. Instead, Mayor Billings' administration and the City Council "borrowed" $4 million from the Energy Department to pay principal and interest on the bonds.

iProvo sold to Broadweave/Veracity

Recognizing that the city could not continue to subsidize iProvo's losses, then-Mayor Billings sold iProvo to a private company, Broadweave. The company

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operated and maintained iProvo's network, and all the network's customers became Broadweave customers. Along with those benefits, Broadweave agreed to make the monthly payments on the bonds, though the bond remained in Provo's name.

To assure Provo that Broadweave was serious about making the bond payments, Broadweave was required to provide a $6 million surety fund. If Broadweave could not make bond payments out of operating revenues, Provo would make the bond payment out of this surety fund. If the amount remaining in the surety fund dipped below $1.6 million (six months worth of bond payments), Provo could resume ownership of the network.

Not long after this deal, Veracity merged with Broadweave. Veracity quickly realized that the size of the bond repayment amount could not be covered by operating revenue and still improve the network. To close this gap, Veracity asked Provo to pay $80,000 per month for 18 months towards the $268,000 monthly bond payment. In return, Veracity agreed to repay that money in seven years. If Provo would not make those payments, the city would have to resume ownership and operations of the network. Unsurprisingly, the city agreed to make the monthly payments.

Mayor John Curtis plans for Veracity's default

John Curtis' election as Mayor of Provo in 2009 marked a crucial turning point in the iProvo saga. He has begun an honest, direct dialogue with Provo residents, and with your Taxpayers Association. His conversations are premised on the fact that iProvo and its associated bonds exist, so there is no point in debating whether Provo should have gotten into iProvo. That debate is over. Rather, he emphasizes that Provo needs to have viable plan to repay the iProvo bondholders.

Given the rate Veracity was consuming the surety fund, Mayor Curtis and the Provo City Council knew at the beginning of 2011 that the surety fund would drop below $1.6 million sometime this summer; they began making plans by issuing first a request for qualifications, and then a request for proposals for a group to take over iProvo. So far, three groups (including Veracity) have submitted proposals detailing how they would use the network, and what terms they would need.

When Veracity used the surety fund to pay iProvo's July bond payment, the remaining surety fund sunk below the $1.6 million threshold. Mayor Curtis and the Provo City Council are actively considering what the city should do with the network.

In stark contrast with the staff and Board of UTOPIA, Mayor Curtis has repeatedly reached out to industry experts, the public and your Taxpayers Association for advice. We have met with him several times over the past 18 months, and have been impressed with his willing and open attitude to discuss possible solutions to iProvo's problems.

Is a surcharge on utility bills the least bad way forward?

Based on the combined experiences of Provo, and Broadweave/Veracity, Mayor Curtis has concluded that iProvo's operating revenues cannot cover its operating costs and bond payments. Perhaps in the long term that may be possible, but for the foreseeable future Provo has to identify a transparent source of revenue to repay the bonds.

Provo can meet its remaining iProvo debt by imposing a telecom fee on city utility bills of $7.65 per month per meter for the next 15 years. Mayor Curtis prefers that alternative to say, a property tax increase, for several reasons. First, it would appear as a separate line item on the utility bill, so every Provo resident would know about it, and what it's for.

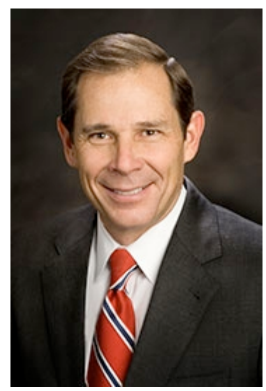
Second, a recurring line item on the utility bill applies continuous political pressure to eliminate this fee. Not only does its appearance continually remind residents of this obligation, but future mayors or councils can't simply continue with higher property taxes to fund another project when the debt is repaid in 15 years (as they did last year with the repayment of Provo's library bond and the creation of the Provo rec center).

Third, Mayor Curtis says Provo officials will feel ongoing pressure to decrease the size of this monthly bill, as they identify new means of generating revenue from the network such as selling strands of fiber, letting other carriers operate on the network, or other yet-unimagined technologies that take advantage of the network's capacity.

The least bad way forward

Unfortunately, iProvo has been a significant problem for Provo taxpayers. The city will never recover the $4 million the Energy Department "loaned" iProvo. Nor will it likely recover the $80,000 per month (over 18 months) it paid towards the bonds when Veracity requested assistance.

The iProvo debates have divided the city, and Provo residents will be paying more in taxes and fees for another 15 years because of iProvo. However, Mayor Curtis appears prepared to find the least bad way forward. That is not an ideal situation, but ideal is no longer possible. Your Taxpayers Association continues working with Mayor Curtis and the Provo City Council in resolving this dilemma.

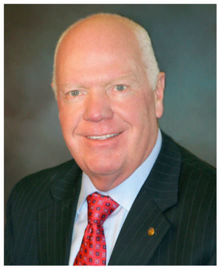


Provo Mayor John Curtis

One final consideration must be addressed, and that is, how fair is it to incumbent, private sector telecom providers who have paid their taxes and played by competitive free market rules to now see taxpayers subsidize their government competitor, even though the city has rightly outsourced its operations to the private sector? Would it be more fair to collect the $7.65 per month to pay off the bond but shut down iProvo and sell it off to the highest bidder?

The Utah Taxpayer – January 1939

"The only source of government revenues is taxation. To spend more than we can raise through taxation is to live beyond our ability to pay- to live beyond our means. To have more government than we can pay for or more than we are willing to pay for means that future generations must pay. Then they must pay not only for the government they enjoy- but they must also pay for our extravagance and folly."



Association President
Howard Stephenson

My Corner: A Choice for Failing Children

Utah voters in 2007 repealed the most comprehensive voucher law in the nation, which would have granted parents the opportunity to assume greater control of their children's education. I can identify many reasons the voters rejected the legislation, but one stands above all others: many voters said that while they support competition in the educational marketplace, they didn't like the idea of rich people taking public money to send their children to private schools. Whether you like it or not, this idea won't be seriously considered again in Utah for many years. Legislators heard the voters loud and clear.

But the question remains as to whether some type of school choice should be available to help Utah's lowest performing students whose public schools are failing them. As a state senator, and a chair of either the education standing, interim, or public education appropriations committee for most of my legislative tenure, I can't afford to just focus on my own kids and now, grandkids. I have to identify solutions that will help all of Utah students, especially those who are clearly falling through the cracks.

I've watched school choice programs around the nation closely, and I'm convinced that programs that focus on failing students are most successful. The path-breaking programs in Milwaukee, WI, Cleveland, OH and Washington, DC succeeded because they focused on helping students who had been failed by their public schools.

I was impressed by the Supreme Court's recent decision upholding Arizona's tuition tax credit. Under the Arizona program, individuals and corporations receive a credit against their personal or corporate income tax for donations up to $1,000 to a scholarship granting organization (SGO).

In delivering the ruling, Justice Anthony Kennedy wrote that donors to SGOs "spend their own money, not money the State has collected . . . from other taxpayers . . . Private bank accounts cannot be equated with the Arizona State Treasury." In other words, the court showed that tuition tax credits are fundamentally different from vouchers. Tuition tax credits merely allow individual taxpayers to direct where their money goes, while vouchers allow recipients to spend the state's money.

With these lessons in mind, I am working with other legislators to craft a tuition tax credit bill that focuses laserlike on students who are demonstrably failing in public schools.

The current proposal would provide that only Utah students who have scored below "Sufficient" on statewide, end of level reading or math tests will be eligible to receive the scholarships funded by donations to an SGO. Last year nearly 1 in 5 Utah students scored below sufficient in Language Arts, 1 in 3 in Mathematics, and 1 in 3 in Science. The carrot system seems to be unable to lift these students from failure.

Those eligibility requirements ensure that more funding will be available for failing students while increasing funding per student in the public education system. Utah school districts spend about $8,300 per student. If one of those students uses a scholarship from an SGO for, say, $3,000 to attend a private school, the state is left with $5,300 to spend on the remaining students. Admittedly, some portion of the $8,300 is a fixed cost, meaning increasing or decreasing the number of students won't change that portion of the total cost. Even if we assume that $2,000 are fixed costs, the scholarship funded by tuition tax credits of $3,000 still leaves $3,300 for each failing student who goes elsewhere. Consequently Utah school districts will spend more on the remaining students than if the school districts were paying the full $8,300.

When the electorate rejected vouchers in 2007, they did NOT eliminate the Carson Smith Special Needs Scholarship, which provides school choice options to the most vulnerable students in Utah's public schools. It is now time to expand this concept to non-special needs children who aren't getting the education they need. That's why the program I'm proposing focuses only on children who are failing. They need a hand up, and we need to give them one.

The Employee Rights Act: Protecting Democracy in America's Workforce

Guest Commentary by Senator Orrin Hatch

United States Senator
Orrin Hatch

America is currently engaged in a national debate over the role of labor unions and collective bargaining. While this important debate will, in many ways, impact our nation's economic future, it is vital that we work to ensure that the rights of individual workers are not lost in the shuffle.

Our nation's labor laws were designed to protect the rights of workers to form unions and the opportunity to engage in collective bargaining. However, the right *not* to join a union is just as essential and, far too often, it goes overlooked.

While periodic imbalances have stacked the deck against workers who oppose union representation, the Obama Administration has gone to all new extremes, actively seeking to dilute and weaken what protections remain for individual workers.

Utahns understand this more than most.

Last November, Utahns voted overwhelmingly to amend the Utah Constitution to guarantee a right to a secret ballot vote in Utah's union elections. Immediately, the National Labor Relations Board (NLRB) went on the offensive, threatening litigation before a single worker or union filed a complaint.

In April, the same NLRB filed a complaint against the Boeing

Company for opening a plant in South Carolina – which is, like Utah, a Right-to-Work state – instead of giving the work to Boeing's unionized workforce in Seattle. The Board had no evidence that Boeing's actions negatively impacted a single union member. They simply wanted to send a warning to businesses who might want to consider labor costs when they make business decisions.

Once again, states like Utah face the condemnation of the Obama Administration.

Then, of course, there is the National Mediation Board (NMB), which regulates labor for the airline and rail industries. For nearly a year, the NMB has been trying to foist unionization upon the employees of Delta Airlines, ordering repeat union elections and even going so far as to change the rules governing how the votes are counted. Time and again, Delta's workers have voted to reject union representation. This, apparently, is of no concern to the pro-union NMB.

Delta is important to Utah's economy. They employ thousands of Utahns and are one of the major economic forces driving the expansion and growth of Salt Lake International Airport. So, it's not surprising that they've become a target of this administration's radical labor agenda.

During my time in the Senate, I have led the Senate Republicans in every major labor fight, whether it was defeating the so-called "Labor Law Reform" in the late 1970s or the more recent battle to block "card-check" and the Employee Free Choice Act. In all that time, I have never seen an administration so eager to change labor law and policy without the input or consent of Congress. For this reason, it is simply no longer enough to play defense on these issues. American workers need substantive legal and procedural protections to preserve their ability to make these kinds of decisions without harassment or intimidation.

Toward that end, I have introduced the Employee Rights Act (ERA), a comprehensive workers' rights bill that will address many of our nation's labor and unionization issues.

First, the ERA will require a secret ballot vote in *every* union election, regardless of whether an employer opts to voluntarily recognize the union. This will eliminate any claimed disparities between the Utah Constitution and the National Labor Relations Act and keep our state's secret ballot amendment just the way it is.

In addition, the ERA will require union representation to be recertified via a secret ballot election every three years. The vast majority of current union members never voted to join their union. They simply accepted a job in an already unionized workplace. Yet, in most cases, they are required to continue their membership and pay dues. If they want to petition to decertify the union, they face fierce counter campaigns and a very small likelihood of success. By ensuring periodic votes to recertify the union, the ERA will fix these problems.

My legislation will also prevent a union from ordering a strike or work stoppage unless it obtains the consent of a majority of the affected workforce through a secret ballot vote. Union strike funds rarely pay more than 20 percent of an employee's salary during work stoppages. It's only fair to require a majority of all affected employees to authorize the forced unemployment and possible replacement that come with a strike.

Another provision of the ERA will prevent an employee's union dues or fees from being used for purposes unrelated to the unions collective bargaining functions -- including political contributions – without that member's written consent. Polls show that America's union members are almost equally split between Democrats and Republicans, yet more than 90 percent of union political contributions go to Democrats. No one should be forced to contribute to political campaigns against their will, particularly if they do not support the candidates or their agenda.

The ERA will do many more things, including putting a stop to the NLRB's recent "quickie elections" proposal, making unions financially liable if they violate a worker's rights, strengthening prohibitions on the use or threat of violence to achieve union goals, and allowing all affected workers – union and non-union alike – the same rights as union members to vote to ratify a collective bargaining agreement or to begin a strike.

These reforms are long past due. For too long, workers in Utah and elsewhere have been treated by union leaders as little more than human ATMs. We're fighting three wars overseas to ensure democracy abroad. Shouldn't we also ensure democracy for our own workforce?

Truth In Taxation Hearings: Is Your Local Government Raising Property Taxes?

Your Taxpayers Association has worked with Utah cities and school districts to find budget solutions that avoid property tax increases. This year, thirty-five taxing entities are asking more from residents and businesses. As a result, these school districts, cities and special districts will be holding Truth In Taxation (TnT) hearings this month.

The accompanying chart outlines all the TnT hearings that will be held throughout the state. Use the chart to determine if your local government is raising taxes. For more information about property tax increases and notification, visit the Utah Public Meeting Notice website at http://www.utah.gov/pmn.

West Valley City

This budget year West Valley City will continue to pour taxpayer dollars down the UTOPIA drain. To cover their $3.5 million UTOPIA bill, West Valley City is proposing an 18% property tax increase. While West Valley City officials insist that the property tax increase is unrelated to the UTOPIA bill, it is no coincidence that the exact amount of revenue generated from the property tax increase is $3.5 million.

The tax increase would amount to $70.44 on the average home valued at $185,000 and $128.16 for businesses of the same value. West Valley City already has the second highest property tax burden in the state.

Davis School District

Last year at this time, the Davis School Board raised property taxes $60.50 on the average home. This year they are back for more. For the second year in a row, Davis School District is proposing a property tax hike. This year's proposal is one of the largest in the state and would cost taxpayers another $60 a year on an average home valued at $200,000.

Taxpayers are not ATMs. Your Taxpayers Association strongly opposes Davis School District's constant requests for more money. Every Utah school district has experienced decreased revenue and been forced to make difficult cuts. Davis

School District is no exception. Instead of pushing the pain on taxpayers, the Davis School Board must cut their budget and live within its means.

Syracuse

Syracuse City is considering options to repair and resurface their deteriorating roads. The cost of road repairs and the total mileage of roads in Syracuse have increased in the last five years. The Syracuse City Council has proposed a property tax increase of $75 on the average home with a two-year sunset clause.

Another option being considered by the council is a bond (instead of a tax increase) to pay for specific road repair projects. Road maintenance should be part of an annual city budget and not require a tax increase. However, one-time repair projects should be paid for using one-time money, such as a bond. Therefore, your Taxpayers Association encourages Syracuse to seriously consider a bond election instead of a property tax increase.

Provo City

Provo is facing two budget challenges this year, each with the potential to increase the burden on taxpayers. As detailed elsewhere in this edition of *The Utah Taxpayer*, Provo is considering a fee of $7.65 per meter per month to repay the iProvo bonds.

Provo is also considering a 16% property tax increase so that they can hire additional police officers. Over the past decade, the number of police officers per 1,000 Provo residents has decreased from .935 to .825.

During that same time, Provo put taxpayers on the hook for a rec center, and created iProvo. Instead of these wasteful programs, Provo should have met its core obligation, and funded city police needs. As a result, your Taxpayers Association opposes this tax increase.

South Salt Lake Civic Center Bond: 30 Year Term Costs Taxpayers Too Much

With the decline in population in Granite School District in the past decade, the Granite School Board closed Granite High School, which had long been the only community center in South Salt Lake. Now the Granite School District is willing to sell this historic property to the city of South Salt Lake, and South Salt Lake's leaders are anxious to take the offer.

South Salt Lake has placed a $25 million bond on this November's ballot to purchase and develop the Granite High site into a community center. While this proposal represents a once-in-a-generation opportunity for South Salt Lake, the Association has significant concerns with this proposal.

First, the 30-year term of this bond is much too long. As the accompanying chart shows, the last ten years of this bond will cost taxpayers in South Salt Lake $9 million in interest alone. That unnecessary cost is simply too much for taxpayers to shoulder. If the bond term were just 20 years, the Taxpayers Association would be much more inclined to remain neutral or even support this bond.

Second, components of the project's rec center will compete with the private sector. The group fitness room, free weights, and cardio and weight machines are all core components of what private fitness centers offer. If South Salt Lake reprograms its proposed services to eliminate these competitive services, the Taxpayers Association would be much more likely to remain neutral or support this bond.

When elected officials seek Taxpayer Association counsel we offer solutions and direction in hopes of finding a mutually agreeable solution. Mayor Ralph Becker and Salt Lake City asked for the Taxpayers Association's input on the public safety building (after the Association helped to defeat two previous bond proposals),

Table 1: Total Interest Paid on the South Salt Lake Bond by Length of the Bond Term

Term	Bond Amount	Residential property Cost	Total Interest
15 years	$25,000,000	$109	$6,111,583
20 years	$25,000,000	$90	$9,853,666
25 years	$25,000,000	$81	$14,235,287
30 years	$25,000,000	$75	$18,935,918

Source: Zions Bank Public Finance

August 2011 Truth In Taxation Hearing Dates and Times

Taxing Entity	TnT Date	TnT Time	% incr.
Granite School District	2-Aug	6:00	3.9%
Grand School District	2-Aug	7:00	2.6%
SLC School District	2-Aug	7:00	1.7%
Grand County	2-Aug	7:00	3.8%
Centerfield	3-Aug	6:00	158.3%
Cache School District	4-Aug	6:00	6.6%
Nibley	4-Aug	6:30	2.1%
Oquirrh Park & Rec District	4-Aug	7:00	6.8%
Heber City	9-Aug	6:00	45.2%
Syracuse	9-Aug	7:00	28.3%
West Valley City	9-Aug	6:30	18.2%
Salt Lake City	9-Aug	7:00	7.1%
Provo	9-Aug	6:00	5.8%
Logan School District	9-Aug	6:00	1.7%
Morgan School District	9-Aug	7:30	0.7%
Elwood	9-Aug	7:00	133.0%
Providence	9-Aug	6:30	23.5%
Castle Valley Special Service District	9-Aug	6:00	1.9%
Monticello	9-Aug	7:00	8.7%
Smithfield	10-Aug	7:00	19.6%
Summit County Wildland Fire	10-Aug	6:00	2257.1%
Davis School District	11-Aug	6:00	7.5%
West Bountiful	11-Aug	7:00	67.1%
Hatch Town Cemetery Maintenance District	11-Aug	7:00	210.6%
Charleston	11-Aug	7:00	161.4%
Marysvale	15-Aug	7:00	222.7%
Big Water	15-Aug	7:30	43.4%
Woods Cross	16-Aug	7:00	34.2%
No. Tooele County Fire	16-Aug	6:30	14.0%
Alpine	16-Aug	7:00	46.3%
Salem	17-Aug	7:00	99.9%
Virgin Town	17-Aug	6:00	41.6%
Garfield School District	18-Aug	6:00	8.2%
Beaver County Special Hospital	23-Aug	6:00	31.1%
Weber School District	7-Sep	6:00	1.4%

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and the Association finally endorsed Mayor Becker's public safety bond, and provided input to improve building efficiency.

Your Taxpayers Association has communicated their concerns over the South Salt Lake bond to city officials, hoping they will alter the proposal before the November ballot. If these concerns remain, the Taxpayers Association will oppose this bond. If these concerns are resolved, the Taxpayers Association will not oppose this bond, and may endorse it.

U.S. Debt Ceiling Debate: What the Experts Are Saying

In the eleventh hour, Congress passed and President Obama signed the Budget Control Act of 2011, raising the debt ceiling. During the debt ceiling debate, research institutes and public policy think tanks throughout the country have been weighing in on the evolving proposal. Your Taxpayers Association has taken no formal position on the Budget Control Act of 2011, but has closely followed the commentary of numerous national institutes. Here are some excerpts from those national organizations.

The Heritage Foundation

"The debt limit deal is a disappointment, but conservatives have made a real difference. We can be proud of the progress we made changing the dialogue in Washington. Just as with the Ryan budget plan, we are talking in terms of spending cuts for a smaller, less costly government, not spending increases. Popular opinion is with the conservative philosophy of limited government."

Americans For Tax Reform

"The bill keeps the President's aggressive spending agenda in check by establishing a two-step process to allow more borrowing authority. This requires a Joint Committee to enact at least $1.5 trillion in savings or a Balanced Budget Amendment to the Constitution be sent to the states before another debt limit hike is authorized. If either of these initiatives fail, an across-the-board sequester will be enacted equal to the amount of borrowing authority the President is able to request. This ensures another debt limit hike cannot occur absent significant spending reform."

The Cato Institute

"Republicans and Democrats have come together on a "historic" budget deal that cuts federal spending by more than $2 trillion over 10 years. The *Washington Post's* lead story calls the cuts "sharp" and "severe."…

Spending isn't being cut at all. The "cuts" in the deal are only cuts from the CBO "baseline," which is a Washington construct of ever-rising spending. And even these "cuts" from the baseline include $156 billion of interest savings, which are imaginary because the underlying cuts are imaginary."

The Tax Foundation

"It was inevitable that the final compromise was going to have all sorts of complicated political maneuvering, though the intricacies of this particular deal are confusing even to those of us who observe Congress on a regular basis. We can at least be glad that the U.S. has, for now, avoided defaulting on its debt."