December 2011 Volume 61

THE UTAH TAXPAYER

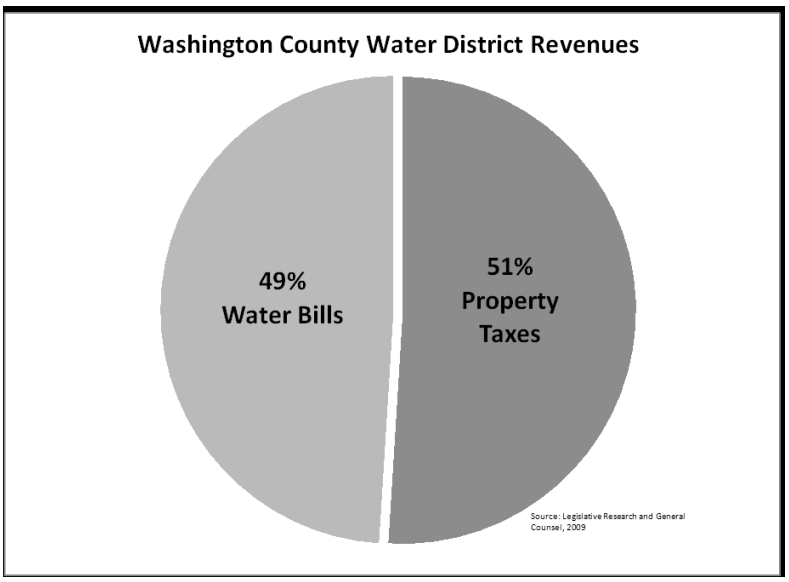
A PUBLICATION OF THE UTAH TAXPAYERS ASSOCIATION

Eliminate the Property Tax Subsidy for Water

As a desert state, Utahns are rightly concerned about having adequate water for current and expected needs. Thus, a $1.4 billion request to develop 86,000 acre-feet of Colorado River water in Washington County isn't immediately shocking. However, the Taxpayers Association does not believe property taxes are the appropriate method of funding this project. Water rates are a better source for funding water development. When water users pay full freight for their water, instead of having it subsidized by the property tax, much or all of this $1.4 billion project will no longer be necessary.

In 2009, the Washington County Water District collected 51 percent of its annual revenues from property taxes. Only 49 percent of their revenues actually came from selling water. If property taxes were phased out, the Washington County Water District would have to charge water users the full price, which would in turn lead consumers to economize their monthly water use.

This outcome is precisely how we expect people to behave. If I don't have to pay more for using more, I'll use more. Why not? Unfortunately, that is exactly



Source: Office of Legislative Research & General Counsel, 2009

what happens when we use property taxes to pay for water. My property taxes don't go up if I use more water, so I use more water. If we stop using property taxes to pay for water, and instead rely on people paying based on how much they use, people will only use as much water as they need to.

Certainly no one revels in proposing to increase water rates, but because of the property tax subsidy, Washington County has some of the cheapest water rates in the U.S. A typical St. George household uses roughly 28,000 gallons of water during the month of July, and a city resident there pays $1.11 per thousand gallons for this water.

By comparison, Tucson residents pay $8.67 per thousand gallons at this

DECEMBER 2011
VOLUME 61

City	Cost per $1,000 gallons @ 28,000 gal/month
St. George	$1.11
Tucson	$8.67
Phoenix	$5.60
Las Vegas	$3.09
Seattle	$15.78

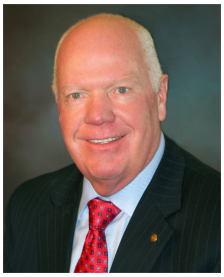
Source: Communications with St. George, Tucson, Phoenix, Las Vegas and Seattle

volume threshold, Phoenix residents pay $5.60, and Las Vegas residents pay $3.09. Even Seattle residents, who receive much more rain than St. George residents, pay $15.78 per thousand gallons at this volume. While the price per 1000 gallons is higher in these cities, residents in these cities use between 25 – 65% less water than St. George's residents do. And they aren't paying property taxes for water.

Washington County's 140,000 residents are not the biggest user of water there. In Washington County, farms and ranches consume over 100,000 acre-feet of water, compared with only 42,000 acre-feet used by the County's urban sector. Since future urban growth will occur on what is currently agricultural land, we should expect to convert this agricultural water to urban uses as the land base is converted.

When residents pay the full price for water based on how much water they use, they will conserve more, which means taxpayers won't need to pay for a $1.4 billion water project to bring Colorado River water to St. George. Once the property tax subsidy is gone, and each resident pays full price for each gallon of water, Washington County may still want a pipeline to bring the Colorado River water to St. George. If so, they can gauge how much they are willing to pay for that through their water rates. But as long as property taxes are subsidizing water usage, it's difficult to know how much water a county may need. During the 2012 Legislative Session, your Taxpayers Association will be vigorously working to eliminate this water subsidy, and keep your property taxes low.

My Corner: The Mayor Should be Salt Lake County's Budget Officer



Association President Howard Stephenson

For years Salt Lake County has used an unusual structure to create and manage their budget. The County Auditor has been the "Budget Officer, and he and his staff have created a "Tentative Budget." Separately, the County Mayor recommends another budget to the Council. The County Council considers the recommendations from the Auditor and the Mayor, and eventually approves a final budget. Based on the finalized budget, the Mayor implements county policy.

Salt Lake County's budget process is unusual in its use of the County Auditor in the budget process. Normally, the Auditor's role in the budget process begins after the County has adopted the budget. They gauge how well actual policy corresponded with enacted statute, ordinance, budget and policy. Salt Lake County's Council and Mayor would like to streamline the county's budget process, by making the County Mayor the Budget Officer.

"The GFOA has "very highly recommended" making the County Mayor the Budget officer, because it will likely increase collaboration, effectiveness and efficiency in the budget process."

Before recommending that change, the County hired the Government Finance Officers Association (GFOA) to offer advice on the merits of changing the Budget Officer from the County Auditor to the County Mayor. (The GFOA specializes in training government financial professionals in the United States and Canada.) The GFOA has "very highly recommended" making the County Mayor the Budget officer, because it will likely increase collaboration, effectiveness and efficiency in the budget process.

I am pleased with this change for several reasons. First and foremost, in the council-mayor form of government, the County Council and Mayor are elected to put their respective policy initiatives into action. The single most important policy tool is the budget. The budget dictates policy issues of paramount importance to increase or reduce the size of government, propose benefit packages to employees or not, begin new programs or close old ones, build or not to build new facilities.

Each of these decisions directly relates to the appropriate level of taxation in our community. As such, the process must be controlled by those charged with taxation responsibility. To have the budgeting software, forms, calendar and direction controlled by the County Auditor impedes the ability of the elected Mayor and Council in the budgeting process.

The current process is also duplicative and inefficient. It is not practical nor is it efficient to divide the budget process up into multiple stages – or to divide the total budget time into three parts. It is simply not good practice to have large portions of your budget staff sitting idle waiting for the stage to turn. Since much of the work necessarily takes longer to perform than allowed by a set stage in the current process, the staff often must duplicate work in order to accomplish a balanced budget.

Finally, the Auditor can and should remain independent from other financial roles. Local governments benefit greatly from audits. Auditors shine light on the finances of the entity to which they are elected. The quality of their audits is commensurate with the Auditor's independence. The fewer conflicting roles of the auditor, the brighter the County Auditor's light. Auditors must focus their efforts on auditing the financial operations of their respective entities, not on creating a budget for that entity.

The Mayor being designated as the Budget Officer is the

logical solution. This is allowed, even anticipated by state statute. The Council acts as a check against the Mayor's authority and power. The Utah Taxpayers Association believes this move will focus accountability for local taxation where it belongs, with the Mayor and Council.

The Economic Impact of a Wilderness Designation

For decades, Utah's rural counties have battled with the federal government over how the state's abundant public lands may be used. Some environmentalists want to designate an increasing proportion of Utah as wilderness, while the county officials, ranchers and farmers, extractive industries and many outdoor enthusiasts prefer to allow multiple uses on public lands.

A new study by several economists at Utah State University sheds important light on the economic impact of these decisions. When land is designated as "wilderness," roads, road construction, mechanized travel and the use of mechanized equipment are all prohibited there. Horses and backpacks are legal, but even a bicycle is prohibited. (A bike's chain designates it as "mechanized" travel.)

These stringent restrictions prevent farmers, extractive industries, and nearly all other industries from using these lands. On the other hand, some outdoor enthusiasts are willing to pay for the privilege of playing in wilderness areas. For example, some hikers and climbers travel from around the world to travel in the Grand Staircase Escalante National Monument. In at least some cases, wilderness designations can be an economic boon.

The question is, when is a wilderness designation appropriate? That is no easy question to answer, but the USU study does offer some guidance. They evaluated the economic impact to each county that has wilderness in it. With nearly 110 million acres of wilderness already in the country, and with 44 of the 50 states having at least some wilderness in it, the question impacts nearly every U.S. taxpayer. However, most wilderness is "in a few rural, lightly populated counties within Alaska, California, Colorado, Montana, New Mexico, Nevada, Oregon, Utah, and Washington."

"The question is, when is a wilderness designation appropriate?"

The USU study focuses on three variables: average household income, total payroll, and county tax receipts. Average household income sums total income of all residents 18 and over, and divides by the number of households. Total payroll is broader than average household income, because it includes commuters and people under age 18. County tax receipts offer the most complete data set, and they represent all taxable transactions within the county. While each variable is imperfect individually, collectively they paint a "relatively complete picture" of how a county is doing economically.

Many other factors besides the presence of wilderness influence a county's average household income, total payroll and county tax receipts. To isolate the impact of wilderness on these variables, the USU study controlled for variables like high school graduates, median household income, poverty rates, crime rates, government employment, unemployment, population and land area.

Table 1: The Economic Impact of Wilderness

Measure of Economic Condition	Economic Impact
Average Household Income	-$1,446
Total Payroll	-$37,500
County Tax Receipts	-$92,910

Source: Table 1, The Economic Costs of Wilderness, Brian C. Steed, Ryan M. Yonk, and Randy Simmons

December Truth In Taxation Hearings

There are three Truth In Taxation hearings in December that your Taxpayers Association is monitoring. The Salt Lake Valley Law Enforcement Area, Salt Lake Suburban Sanitary District and the Oquirrh Parks and Recreation District are all considering a tax increase. For complete information visit: www.utah.gov/pmn/index.html.

Salt Lake Valley Law Enforcement Area

Date: 12/6/2011
Time: 5:15pm
Location: 3365 S. 900 W. Room 115A, SLC

Your Taxpayers Association has reviewed the information surrounding this $28,405,000 tax increase, which it turns out is not an increase at all. By asking to have the taxes collected by the Law Enforcement Area rather than Salt Lake County, it shows a tax increase of over $28 million, but that is offset by the reduction of $28 million in the taxes collected by the county.

Salt Lake Suburban Sanitary District

Date: 11/15/2011
Time: 5:00pm
Location: 3932 S. 500 E., SLC

The Salt Lake Suburban Sanitary District plans to repair a number of its sewer pipes over the next five years. The District has been using reserve funding to fill its budget in the past in order to repair aging infrastructure and is hoping to increase its revenues by increasing taxes by $1,281,379. This increase will cover the cost of repairing and refurbishing sewer pipes which are approaching 50 years old. By refurbishing these pipes, the District expects the sewer pipes to last another 40-50 years. If the infrastructure improvements are expected, the District should bond for the improvements rather than increase taxes permanently.

Oquirrh Parks and Recreation

Date: 12/7/2011
Time: 7:00pm
Location: 5624 S. 4800 W., Kearns

According to the Oquirrh Parks and Recreation District, the operating costs for the district have increased by 41% since its creation 13 years ago. The original bond for the district is expected to be paid off in 2012. Considering this, the district is asking for a 14.7% tax increase in order to fund its operating cost in addition to putting money away for infrastructure improvements as they arise. The tax increase requested just happens to be the same as what taxpayers are currently paying on the bond. Your Taxpayers Association thinks that this type of crafty nuance of creating a tax at the same rate of the bond payment should be rejected by taxpayers.

As the nearby Table 1 indicates, the economic impact of having a wilderness designation in the county is negative. A wilderness designation lowers average household income by $1,446, and lowers total payroll by $37,500. Similarly, wilderness designations lower county tax receipts by nearly $93,000.

Importantly, these findings are general. As the study notes, "some Wilderness can, in fact, have positive economic impacts, even though our findings indicate that this is not the general rule." As Utah and Congress continue to debate how much wilderness to designate in Utah, the USU study shows that economic impacts must be considered.

New Natural Gas Leases Net Utah $25 Million

As many in Utah will remember, shortly after taking office the Obama Administration withdrew 77 natural gas leases that the BLM had previously vetted and deemed appropriate under the federal Minerals Leasing Act. Those 77 leases have been the source of much drama since. However, on Nov. 15th the BLM quietly re-auctioned a handful of those parcels, generating almost $50 million, half of which will go to the State of Utah. How this new lease auction came about is important for Utah's ongoing discussions about wilderness recreation and economic development. It also illustrates the impact allowing multiple use of public lands can have on the economic development that the nearby article on wilderness and economic development describes.

Most who follow energy production will recall that in 2010 the Bill Barrett Corporation (BBC) struck a deal with the Southern Utah Wilderness Alliance (SUWA) that freed up a permit to drill on the Tavaputs Plateau (which straddles the border of Duchesne County and Carbon County) – a permit that had languished within the BLM bureaucracy for seven years. Were it not for the deal with SUWA, there would be no permit. And while BBC made concessions, the company's negotiations will benefit its shareholders and Utah taxpayers.

Today BBC is ramping up production on the Tavaputs Plateau. The Tavaputs project will eventually produce the equivalent of one-third of all natural gas production in Utah today. The associated benefits are tremendous for state and local economies, leading to hundreds of jobs, hundreds of millions of dollars in capital expenditures, and hundreds of millions of dollars in taxes and royalties to state and local coffers.

"However, on Nov. 15th the BLM quietly re-auctioned a handful of those parcels, generating almost $50 million, half of which will go to the State of Utah. How this new lease auction came about is important."

The concessions made to SUWA were also a win for environmentalists. BBC agreed to dismantle and reclaim some existing drilling sites that sit atop Desolation Canyon, part of an important Wilderness Study Area. BBC will still develop the gas on the canyon's rim through directional drilling techniques, but they agreed to reclaim the surface and to *temporarily* gate the roads that were built to access the drilling pads.

Though there were many conversations at the time with state and local officials as well as public meetings and a public comment period, the gating of roads became a source of controversy in Carbon County. The county's commissioners claim that their constituents are up in arms over the restriction of access for off-roaders and hunters caused by the gates. The commissioners are now making noise about legal maneuverings as a way to protest the gates.

Energy producers share the concern over keeping Class B and C roads open in Utah, but there are only eight gates that *temporarily* limit access to roads that lead to either active drilling operations or areas under reclamation. All gates are slated for removal once drilling activity in the area ends. Despite this, the sabre rattling by the Carbon County Commission nearly prevented November's BLM lease sale from happening.

All of which brings us back to the recent auction by BLM. One of the conditions extracted by BBC in the Tavaputs settlement was that SUWA would support the release of the parcels on the plateau adjacent to the current BBC development. Because the value of Tavaputs is now well known, the pulled-back parcels originally generated around $12 million (which was refunded), but the November release auction generated over four times that amount, nearly $50 million.

Tavaputs Plateau

This new gas field is about half the size of BBC's current Tavaputs project -- a tremendous amount of gas in its own right. It too will lead to hundreds of jobs, hundreds of millions in capital expenditures and tens of millions of dollars in taxes and royalties to state and local coffers. And again, November's $25 million unexpected bump in the state's share of revenues was only possible because of the BBC-SUWA settlement. So while Carbon County has characterized the settlement as a "deal with the devil," it is rather a necessary part of doing business while a hostile regime controls the federal Department of Interior.

"The November re-lease auction generated over four times that amount, nearly $50 million."

Put Severance Taxes Where They Belong — In Permanent State Trust Fund

In 2008, your Utah Taxpayers Association led a statewide coalition to amend Utah's Constitution allowing the state to deposit severance taxes into the state's permanent state trust fund. Once in the permanent state trust fund, those severance taxes earn interest that can be either reinvested in the state trust fund, or spent for on-going projects.

Unfortunately, that amendment contained a trapdoor. To spend money already in the Severance Tax Trust Fund, ¾ of both Houses of the Legislature must approve it. To spend severance tax revenue *before* it goes into the trust fund, only a simple majority of the Legislature must approve it.

The problem is, severance taxes are not ongoing revenues. Because severance taxes are paid when oil, gas and minerals are extracted, those revenues disappear when the oil, gas and minerals disappear. Instead of wasting any part of severance tax revenues from depleting resources on on-going projects, Utah should invest them in the permanent state trust fund.

At the end of the 2011 Legislature, we saw just how willing the spending lobby is more than happy to spend those severance tax dollars, rather than letting them flow into the trust fund. To balance the budget, the Legislature approved SB 320, and increased the amount of severance taxes spent in the General fund from $65 million to more than $75 million.

Representative Jim Nielson and your Taxpayers Association led a spirited floor fight against SB 320. Although the Senate approved SB 320 with no dissent, Rep Nielson's floor debate and a concerted lobbying effort by your Taxpayers Association led to 34 House members voting against SB 320.

Recognizing how easy it is for the spending lobby to spend severance tax dollars, Rep. Nielson and your Taxpayers Association are preparing another amendment to Utah's Constitution. Under this amendment, ¾ of both Houses of the Legislature would have to vote to approve before they could spend severance tax dollars in the General Fund.

Rep. Jim Nielson

The sooner Utah stops diverting severance tax dollars into the general fund, the sooner this common sense policy will allow Utah to develop a trust fund that can earn the millions upon millions that other oil, gas and mineral producing states earn. For example, New Mexico's Severance Tax Permanent Fund has existed since 1973, and now holds more than $3.5 billion. The Permanent Wyoming Mineral Trust Fund has existed since 1974, and today contains more than $4.2 billion.

A mere 5% annual return on those trust funds translates into more than $150 million per year for each of these states. *Forever*. Utah cannot afford to continue wasting severance tax dollars on ongoing projects. We should invest those revenues in the Permanent State Trust Fund, so our grandchildren and great-grandchildren don't regret the way we squandered the revenues from Utah's precious natural resources. Your Taxpayers Association wholeheartedly supports Rep. Nielson's amendment to the Utah Constitution, and will work with the Legislature to get this amendment before the voters this fall.

Two New Executive Committee Members Elected to Utah Taxpayers Board of Directors

Steve White

Kent Stanger
Merit Medical

Mike Edmonds
US Magnesium

The Association Board of Directors reelected John Ward as Chair of the Utah Taxpayers Association Board of Directors on November 18, 2011. At the annual membership meeting held that same day, Steve White replaced outgoing board members Barbara Baker and Ken Macey.

The Executive Committee members are John Ward (Chair), Jim Hewlett (Vice-Chair), Kent Stanger (Secretary), Mike Edmonds (Treasurer), Morris Jackson (Legislative Chair), Margo Provost (Immediate Past Chair), Val Hafen (At Large) and Max Miller (At Large).

The Utah Taxpayer – December 1966

"There was a cow that sucked herself. The more she sucked, the faster she grew. The faster she grew, the more she sucked until she sucked herself to death. Inflation is like the poor cow. The more there is, the greater the need for increased public spending. The more that is spent the bigger the deficit. The bigger the deficit, the more inflation. The more inflation the greater the need, etc."

UTAH TAXPAYERS ASSOCIATION

656 East 11400 South, Suite R
Draper, Utah 84020-9787

Upcoming Taxpayers Association Events

Newly Elected Local Officials Conference

Lawrence Reed
Foundation for Economic Education

Date: 12/13/2011

Time: 9am to 4pm

Location: Little American Hotel, 500 S. Main, SLC

All local elected officials are invited to attend. Call 801.972.8814 for more information.

John Stossel

John Stossel
Fox Business Network

Date: 4/18/2012

Time: TBD

Location: TBD

Call 801.972.8814 for more information or visit www.utahtaxpayers.org.

Annual Pre-Legislative Conference

Stephen Moore
Wall Street Journal

Date: 1/19/2012

Time: 9am to 12pm

Location: TBD

Everyone is welcome to attend. Call 801.972.8814 for more information or visit www.utahtaxpayers.org.

34th Annual Taxes Now Conference

Date: Week of May 21-25, 2012

Time: TBD

Location: Little America Hotel

Call 801.972.8814 for more information or visit www.utahtaxpayers.org.