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Utah's Dependence on Federal Dollars

How Addicted is Utah to "Federal Crack"?

Guest Commentary from Mike Jerman, Legislative Director for Representative Jason Chaffetz

> ***"It's very easy to get addicted to the federal crack. It just keeps coming and just makes me feel good and I like more, more, more. We are more self-reliant. We are more stand-alone capable. We are less reliant than other states and that's good for us."*** - Gov. Gary Herbert, referring to the Census Bureau's Consolidated Federal Funds report which ranks Utah 47th in per capita federal spending (Source: Deseret News)

Utah is less dependent on federal dollars than many states, but a recent Census Bureau report that ranks Utah 47th in federal spending per capita understates Utah's dependence on federal dollars relative to other states. Based on more relevant measures such as federal dollars received as percent of gross state product and federal dollars received as a percent of federal taxes paid, Utah is only a little less dependent than the national average.

Utah's dependence on federal dollars has increased substantially during the Great Recession at a about the same rate as other states.

Per Capita Measurements Are Misleading When Comparing Utah to the Nation

Most Utah-based policy analysts and researchers know that per-capita comparisons that involve Utah and the rest of the nation, such as the once cited from the recent CFFR, are usually misleading. Utah ranks very low in nearly every per-capita measure because of Utah's large population of children. For example, Utah ranks 41st in federal taxes paid per capita, about 36% below the national average[1]. While some of this low ranking is attributable to Utah's higher charitable contributions and more child tax credits and personal exemptions, Utah's per capita measure is reduced due to high numbers of children in the denominator.

A Better Measure: Percent of Gross State Product

Measuring federal dollars received as a percent of gross state product eliminates the distortion caused by Utah's unique age demographics. By this measure, federal spending in Utah accounted for 20.6% of GSP in 2010 compared to 22.5% for the nation. Utah ranked 37th by the measure. Over the past ten years, Utah's ranking has varied from 30th to 46th. On average, Utah ranked 38th and was 12.5% below the national average.

During the Great Recession, dependence on federal spending grew rapidly. In 2000, federal spending as a percent of GSP was 14.4% in Utah and 16.6% nationally. By 2010, these percentages had increased to 20.6% and 22.5 percent.

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Annualized over ten years, the growth rates were 3.6% in Utah and 3.1% nationally. The following chart summarizes Utah's dependence on federal revenues from 2000 to 2010.

Year	Federal Spending as Percent Gross State Product			Federal Spending per $1.00 of Federal Taxes		
	Utah	U.S.	Utah Rank	Utah	U.S.	Utah Rank
2000	14.4%	16.6%	38	$1.00	$0.78	19
2001	15.7%	17.4%	35	1.17	0.84	16
2002	16.5%	18.1%	34	1.35	0.95	17
2003	17.4%	18.6%	30	1.45	1.06	20
2004	16.6%	18.3%	36	1.43	1.07	20
2005	16.3%	18.2%	38	1.27	1.01	20
2006	15.6%	18.4%	40	1.19	0.97	21
2007	15.8%	18.3%	40	1.14	0.95	22
2008	15.2%	19.6%	46	1.00	1.02	32
2009	18.6%	22.8%	44	1.45	1.36	30
2010	20.6%	22.5%	37	1.74	1.40	19
Average	16.6%	19.0%	38	1.29	1.04	21

Source: Calculations based on Internal Revenue Service, Census Bureau, Bureau of Economic Analysis

Another Measure: Dollars Received vs Dollars Paid

Overall, Utah gets a better deal than many states when federal dollars received are compared to federal taxes paid. By this measure, Utah ranked 21st highest receiving on average $1.29 in federal benefits for every $1.00 of federal taxes paid from 2000 to 2010. The effective national average was $1.04.

Concerns about Dependence on Federal Dollars

So far, this analysis has focused on ALL federal dollars, including payments to individuals for programs like Social Security and Medicare, procurement of goods and services such as military hardware, payments to federal employees such as those at the IRS facility in Ogden, and payments to state and local governments for programs like Medicaid, Food Stamps (SNAP), and TANF. Recently, Gov. Herbert told the Deseret News that "it's very easy to get addicted to the federal crack. We are more self-reliant. We are more stand-alone capable. We are less reliant than other states and that's good for us."

Even though the Governor's interpretation of the CFFR data greatly understates Utah's dependence on federal "crack", Utah is less dependent than many states and will need to be even less dependent in the future. This applies to state and local governments, not just individuals. In FY2010, the federal government transferred $608 billion to state and local governments, or about 18% of total federal spending, up from 11% in 1990 and 16% in 2000[1].

Eventually, the federal government will have no choice but to scale back aid to state and local governments. The Congressional Budget Office projects that federal spending *excluding interest* will reach 25% of GDP in 2035[1] compared to about 19% historically (again excluding interest). Despite claims from some on the Left, we cannot make up this difference simply by taxing high income households. Spending will have to be cut, and Utah residents and state and local governments need to reduce their dependence on federal dollars sooner or later.

Mike Jerman
Legislative Director for Rep. Jason Chaffetz

Impact of Federal Land Ownership

Federal land ownership probably impacts Utah's rankings somewhat, although that is difficult to quantify. For example, higher federal land ownership increases federal spending on employee compensation and procurement. However, there is no clear trend when Utah is compared to other western states with high federal land ownership. Some states like Wyoming and Nevada receive comparatively low amounts of federal spending as a percent of GSP (49th and 50th), but others like New Mexico and Montana receive comparatively high amounts (2nd and 10th) and some like Idaho and Arizona are in the middle (18th and 21st).

Technical Notes and Data Limitations

Every year, the Census Bureau issues the Consolidated Federal Funds Report (CFFR) which shows how much funding each state receives from the federal government. Funding includes direct payments to state and local governments, grants to individuals, procurement, and compensation paid to federal employees. Excluded are federal interest payments and foreign aid. The CFFR also calculates the amount each state receives on a per capita basis.

Like most data, CFFR data have limitations. For example, CFFR data show Utah receiving twice as much Medicare Part D funding as Texas even though Texas has eleven times as many Medicare beneficiaries as Utah[1]. When asked about this apparent discrepancy, the Census Bureau and the Centers for Medicare and Medicaid Services responded that Part D distribution depends on the location of the prescription plan provider, not the location of the beneficiaries.

In previous years, the Tax Foundation has calculated "rates of returns" for each state based on federal taxes paid and federal spending received. The ratios in the Tax Foundation's report are different than the ones cited here since the Tax Foundation adjusted federal spending to match federal revenues to obtain a 1:1 ratio. Also, the Tax Foundation adjusted IRS data to account for economic incidence of corporate income taxes and severance taxes.

--You're Invited--

Legislative Committee Meetings for the 2012 General Session

The Utah Taxpayers Association will hold Legislative Committee meetings during the Legislative Session every Thursday at 7:00 am, in the Olmsted Room in the East Annex building (Senate building) near the Capitol cafeteria. These meetings are open to all members of the Association and will begin on January 26thand will continue through March 1st. We will discuss the progress of bills of interest, provide updated legislative watchlists and answer questions about the legislative session. Please join us on Thursdays at 7:00am.

My Corner: Putting Children First in Education Reform

Association President Howard Stephenson

Expect more education reform legislation in the upcoming session of the Utah Legislature: Public education reform and higher education reform. And don't expect the legislature to accept the excuses about poor performance in both public and higher education.

The Crisis of Inflated Graduation Rates

Speaking of poor performance, just before Christmas Utahns received shocking news that the Beehive State's high school graduation rate for the class of 2011 was only 76% in contrast to the 90% rate claimed by the State Office of Education. The Legislature's Iterim Education Committee received in September a report from Associate State Superintendent Judy Park claiming the 90% rate. Some challenged the rate, claiming that USOE's number is invalid in an apples to apples 50 state comparison. Specifically, Utah was cooking its numbers by using base numbers from the sophomore class instead of freshman counts used in national figures, plus, Utah added high school completions which occurred after the end of the senior year.

The Student Opportunity Scholarship would only be provided to the lowest performing students in public schools, easing the workload of dedicated classroom teachers.

With the national figures unveiled in December, Utah could not hide from its lackluster graduation rates. However, nobody at the USOE even winces at the disparities between the figures. In fact, Dr. Park was quoted in a December 20, 2011 Salt Lake Tribune article, "If you just look at this you would say, 'Wow 90 percent of the kids were graduating in 2010 . . . What happened to all those students? Why are we not graduating our students?' " Park said. "Well that's not the case. It's a change in the calculation, not a change in student behavior."

So what *did* happen to all those students? A government system which fails to graduate 1 in 4 students from high school is unacceptable. Trying to hide that fact only makes matters worse and raises questions about transparency related to other areas of education performance. Should we be worried about how the USOE implements the new school grading law to ensure the "Lake Woebegone effect" doesn't place all schools "above average?"

Forcing Kids to Drop Released Time Seminary

Representative Brad Daw and I sponsored Senate Bill 65 last session to give every high school student in Utah access to online courses across the state. The measure passed despite strong opposition from the education community including the UEA teachers union. Because of the legislation, Utah has been recognized as the highest ranked state on Digital Learning Now's State Report Card.

Now, the USOE is telling school districts across the state that students must drop released time seminary or a credit course if they want to take a single online course from an outside provider. This proves Utah's public education bureaucracy is more concerned about controlling students and the funding that follows them than they are about allowing choices of optional educational opportunities

Anti-Voucher Student Opportunity Scholarship

In 2005 the Utah legislature passed the Carson Smith Special Needs Scholarship for students with specific learning and developmental disabilities. Currently, just over 700 students receive these scholarships which enable their parents to receive assistance to send them to one of about 50 eligible private schools throughout the state. Because the scholarship averages around $4,400, parents are required to pay additional out of pocket expenses for their child's education. According to a recent legislative audit, the program received a 100% parental satisfaction rating.

This year I will be sponsoring an expansion of Carson Smith through a Tax Credit for donations to charities called scholarship granting organizations (SGOs). These charities could accept donations from both individuals and corporations and would use the proceeds to grant scholarships to students who are being failed by the current school opportunities. Based on the annual statewide academic assessments, only students who score below proficient would be eligible for the scholarship.

A similar law in Arizona has been upheld by the U.S. Supreme Court.

My bill respects the decision by Utah voters to repeal Utah's voucher law on the 2007 ballot. During that debate public education advocates feared that the voucher law would empower the high performing, committed students to flee the public schools and take public funding with them, leaving the public schools with the lowest performing, hardest to teach students.

The Student Opportunity Scholarship would only be provided to the lowest performing students in public schools, easing the workload of dedicated classroom teachers.

The Seven Principles of Sound Public Policy

On December 13, 2011 the Utah Taxpayers Foundation hosted its first annual "Newly-Elected Local Officials" conference. During that daylong conference, more than 30 local officials discussed critical tools and principles about serving in local office. The highlight of the day was the keynote address by Lawrence W. Reed, president of the Foundation for Economic Education.

In his address, Dr. Reed outlined "Seven Principles of Sound Public Policy." Dr. Reed first gave this address several years ago, while President of the Mackinac Center for Public Policy. Because his address is too long to publish in our newsletter, the following summarizes his address.

Seven Principles of Sound Public Policy

While many policy addresses cover the specifics of the time, like health care or education, the "Seven Principles of Sound Public Policy" are blanket principles appropriate for every issue past present or future. These principles are paramount to a free economy. If each American will read and understand these seven policies, "we will be a much stronger, much freer, more prosperous and far better-governed people."

Lawrence Reed
Foundation for Economic Education

1. "Free people are not equal, and equal people are not free."

Equal and free, in this instance, refers to economic equality and marketplace freedom.

"Free people are not equal." When left to themselves, people make different monetary choices, different occupational choices, and different choices in work ethic. Because of these freedoms, people vastly differ in levels of income and ways of living. If everyone woke up tomorrow with a bank account balance equaling the balance of everyone else, by the end of the day those balances would once again be widely different. Why? Because free people will always make different monetary choices.

"Equal people are not free." Because everyone makes different choices and has different talents, economic equality would only come with extreme force and at a serious cost. "Don't get hung up on differences in income when they result from people being themselves." Don't try to take unique, free human beings and force them to be exactly like each other. As Abraham Lincoln said, "You cannot pull a man up by dragging another man down.

2. "What belongs to you, you tend to take care of; what belongs to no one or everyone tends to fall into disrepair."

This is a lesson that has been hard learned by many countries and societies of our world. The old Soviet empire is one example of what happens when the government takes away private ownership and gives it to someone else to manage. When the farmer's food became everyone's food, people went hungry. When the entrepreneur's factory became everyone's factory, people were given substandard goods.

What happens to a house that a family rents but doesn't own? What happens to a car when it's borrowed by a friend for a few months? People care far less for something that isn't theirs. Unfortunately government at all levels doesn't seem to understand this and is constantly attempting to erode and socialize property rights.

3. "Sound policy requires that we consider long-run effects and all people, not simply short-run effects and a few people."

There are many policies that fall under this category. Federal entitlement to welfare and policies of deficit spending and government growth are two among them. These types of policies have a way of benefiting a few while ultimately underwriting the nation's economy and moral fiber for generations.

"We should remember that today is the tomorrow that yesterday's poor policy makers told us we could ignore."

4. "If you encourage something, you get more of it; if you discourage something, you get less of it."

People are creatures of incentives and disincentives. Policymakers who forget this believe that if they raise the tax on a particular good or service, people will continue to consume just as much of that good or service as they did before the tax hike. "Want to break up families? Offer a bigger welfare check if the father splits. Want to get less work? Impose such high tax penalties on it that people decide it's not worth the effort." The government needs to learn that the best way to deal with debt is to reduce spending, not impose more taxes.

5. "Nobody spends somebody else's money as carefully as he spends his own."

People who spend their own money on themselves will make a few sparse and memorable mistakes. People who spend their own money to buy someone else a gift will make a few more mistakes; the gift might not be as valuable to the receiver but will likely still be a good expenditure on the part of the giver. People who use someone else's money to buy themselves a gift have far less incentive to spend the money wisely. But people who spend someone else's money on other people have little, if any, reason to be frugal or spend wisely. The government does this all the time.

Nobody – repeat, nobody – spends someone else's money as carefully as he spends his own.

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6. "Government has nothing to give anybody except what it first takes from somebody, and a government that's big enough to give you everything you want is big enough to take away everything you want."

An independent and free people don't look to the government for their daily sustenance. Any people relying on a government for sustenance will find it a painful lesson to learn. The more a government gives to a people, the more it takes from the people it gives to.

Nothing is ever free, no matter who says it is. A government will always take to give.

7. "Liberty makes all the difference in the world."

Any public policy that doesn't preserve the liberty of the people should be thoroughly researched and examined. A person should say "If I give up more of my freedom, what will I be getting in return?"

"Too often today, policymakers give no thought whatsoever to the general state of liberty when they craft new policies. If it feels good or sounds good or gets them elected, they just do it. Anyone along the way who might raise liberty-based objections is ridiculed or ignored."

If it comes to choosing more freedom or more government help, freedom is always the better choice.

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Should Utah Run its Own Health Insurance Company?

The Legislative Auditor General recently audited the business practices of the Public Employees Health Plan (PEHP). The findings beg the question, is it time for the State of Utah to get out of the health insurance business?

A division of the Utah Retirement Office, PEHP administers health insurance for a variety of groups, such as state employees, employees of rural school districts, and a few non-government groups. Per statute, PEHP cannot assume insurance risk. Instead, PEHP's groups self-insure as large private sector employers do.

Is it time for the State of Utah to get out of the health insurance business?

Insurance companies and self-insured employers (through their health administrator) protect against large claim losses by purchasing reinsurance from private third party vendors. Unlike large private companies, PEHP does not reinsure through a third party; instead, it carries its risk for large claims internally. As the audit noted, the risk created by each group within PEHP should be borne by that group through appropriate rates paid to re-insure the group.

PEHP's audit was alarming. Among other questionable practices, the audit found that Utah taxpayers are subsidizing the premiums of some self-insured employer groups. PEHP has not charged the members of some employer groups the full cost of their risk, knowing that in the event of a large loss, other PEHP groups (backed by Utah taxpayers) will help cover that loss. This preferential treatment gives PEHP (which doesn't pay taxes) an unfair advantage in the marketplace over private insurance companies (which do pay taxes).

Utah taxpayers are subsidizing the premiums of some self-insured employer groups

The State should not allow taxpayers to assume the risk of these other groups managed by PEHP by allowing them to participate and be subsidized by taxpayers. If these self-insured groups choose to reinsure, reinsurance carriers abound in the market.

An even better alternative would be to require Utah's public employees to be insured by private insurance companies. That option would eliminate taxpayer subsidies from the insurance market, and get the state out of the business of business.

Despite Expanded Network, UTOPIA Loses Customers

Your Taxpayers Association has reviewed UTOPIA's (a consortium of 11 Utah cities competing with private telecom companies) latest audited financials. The most troubling obvious finding is that UTOPIA lost customers during FY 2011.

According to UTOPIA's 2010 audited financials, UTOPIA served 8,782 customers. However, their 2011 audited financials indicate just 8,572 subscribers, a net loss of 210 customers.

The most troubling obvious finding is that UTOPIA lost customers during FY 2011.

That loss is even more troubling, given the significant expansion UTOPIA made over that year. In order to build in Brigham City, they needed at least 1500 new Brigham City customers. If they netted a loss of 210 customers, across the entire network around 1700 other customers had to drop.

In the telecom industry, competition for customers is fierce, so "churn" (customers coming and going) isn't surprising. While UTOPIA's financial viability is premised on aggressive annual growth, UTOPIA has never met its budgeted subscriber goals. FY 2011 is the first year UTOPIA has lost customers.

Other preliminary findings

Several other data points seem to stick out. First, UTOPIA's operating revenue increased 83 percent from FY 2010 to FY 2011. Given their loss of subscribers, that is a remarkable accomplishment. Despite that increase, UTOPIA still maintained an annual net operating deficit of $6.2 million. That appears to be UTOPIA's smallest operating deficit.

Another data point in their financial statement begs explanation. As has been widely reported, their 2010 audited financial statements indicate that UTOPIA had negative net assets of $166 million. Their 2011 audited financial statement revises that 2010 number to negative $101 million. However, their audited financials don't seem to provide any explanation for the revision.

UTOPIA's negative net assets continue to plummet. Even with the revisions made in the 2011 audit, UTOPIA's net assets dropped another 20 percent between FY 2010 and FY 2011, from negative $101 million to negative $120 million.

Your Taxpayers Association worried from the beginning that the optimistic projections UTOPIA relied on would prove inaccurate, an taxpayers would be saddled with long-term debts. Unfortunately, the longer UTOPIA continues, the more accurate our fears seem to be.

UTOPIA's negative net assets continue to plummet. Even with the revisions made in the 2011 audit, UTOPIA's net assets dropped another 20 percent between FY 2010 and FY 2011, from negative $101 million to negative $120 million.

We hope that UTOPIA's board of directors and the City Councils of its eleven member cities begin to take their fiduciary responsibilities seriously, and reduce taxpayers' exposure by looking for every opportunity to sell the network to the private sector. That appears to be the only method to eliminate even a portion of the burden UTOPIA is for each taxpayer in its member cities.