



THE UTAH TAXPAYER

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Finding Solutions to Transportation Woes

Any number of studies show that good transportation infrastructure is critical to economic growth. Commerce requires roads that effectively transport goods and people from where they are to where the market will pay for them.

Since the federal government built the interstate highway system in the 1950s, the gas tax has been the staple of transportation funding. Utah's current gas tax has two components; the federal gas tax is 18.5 cents per gallon, and the state gas tax is 24.4 cents per gallon, for a total gas tax of 42.9 cents per gallon.

The Structure of the Gas Tax

Unlike the sales tax, the gas tax does not fluctuate as prices increase or decrease. Rather, the amount of revenue generated by the gas tax depends solely on the volume of motor fuel sold.

That structure offers some important benefits. First, it is very transparent. Every Utah taxpayer knows how much they are paying, and they know that it pays for state and local roads. Second, it is quite consistent. While the volume of gasoline purchased nationwide decreased 2% from 2005 to 2011, between the 1950's and 2005 annual gasoline sales by volume have increased consistently.

However, the structure of the gas tax has some very serious problems. As vehicles become more fuel efficient, people driving need less gas to travel the same distance. Even if we continue to drive the same distance this year as we did last year, Utah will have less gas tax money to pay for road maintenance and operations.

The federal government receives hundreds of millions of dollars in gas tax revenue from all 50 states, and redistributes that revenue back to the states using a variety of formulas. At different times, Utah has received more federal gas tax money than Utahns have paid. At other times, the opposite has been true.

In coarse terms, Utah distributes the state gas tax into two pieces. Most of it goes to operate and maintain state roads. In 2011, approximately \$125 million was provided to Utah's 245 cities and towns to help pay for Class B and Class C roads. In 2012 and 2013, this is estimated to increase to roughly \$129 million.

The Road Ahead

There have been many proposals to address the issues surrounding the future of transportation funding. Members of the legislature have explored multiple options. One solution is an increase in the gas tax. Some proposals have called for a 5 cent per gallon increase, raising the state imposed tax to 29.4 cents per gallon. There are issues with such a proposal, including more fuel-efficient vehicles that continue to consume less fuel and produce less revenue.

Another proposal from the Utah Department of Transportation (UDOT) would address this problem. During the 34th Utah Taxes Now Conference, Carlos Braceras, Chief Engineer for UDOT, explained that vehicle miles traveled (VMT) is a more stable funding mechanism in the long run. Under a VMT plan, vehicles would pay for the wear and tear on roads in a more equitable fashion, rather than on fuel consumed. This becomes even more attractive as the federal government continues to increase MPG standards for new vehicles.

One thing is certain, these issues need to be resolved sooner than later. Consistent and reliable funding for transportation infrastructure is critical to the economic growth of Utah. Your Taxpayers Association continues to work with legislators and other groups to find a sustainable funding mechanism for Utah's transportation infrastructure.

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My Corner: Dynamic v. Static Fiscal Notes: Is There More to be Gained?



**Association President
Howard Stephenson**

I've spent my entire professional career with your Utah Taxpayers Association. Over those 35 years I've always been puzzled when the budget staff in the Legislative Fiscal Analyst's office has told me that the state will lose money when we cut taxes. Unfortunately, too many in Utah policy circles still think that business investments are independent of tax policy.

The clearest expression of this outdated thinking is in the way our legislative staff is required to score the impact of tax bills. Before the House or the Senate can debate a bill on the floor, it must have a "Fiscal Note," a document that estimates the impact of the bill on the state's budget. In most cases, the Fiscal Note indicates that the bill will have no impact. In other cases, the bill changes how an agency acts, and so could save/cost the state money.

When the Legislature changes tax policy, however, the Fiscal Note can indicate multi-million dollar swings in revenue to or from the state's "Education Fund," "General Fund," or "Transportation Fund." Because Utah's Constitution requires the Legislature to **balance its budget**, revenue changes from all the bills with Fiscal Notes must balance. Needless to say, bills with a "positive" Fiscal Note (or one projecting new revenue to the state) are often easier to pass than bills with a "negative" Fiscal Note (or one projecting lost revenue to the state).

The problem is, legislative staff rely on a "static" model to evaluate whether a bill will increase or decrease revenue to the state. Under a static model, changes in tax policy don't affect business decisions. To use a rather coarse but illustrative

I've always been appalled when the budget staff in the Legislative Fiscal Analyst's office has told me that the state will lose money when we cut taxes.

example, a static model assumes that people buy as many cars when the sales tax is 10% as they do when the sales tax is 1%.

Obviously that's an absurd proposition. The price of gasoline indicates just how sensitive consumers are to even tiny changes in price. The Harmons gas station outside my office lists the price of gas today as \$3.71 9/10. The 9/10 is telling. Every

gasoline price I've EVER seen has been ended with 9/10.

Why? Gasoline retailers have learned over many years that their profits increase when the price ends with 9/10 than when they round the price up to the next penny. If the average consumer will spend more on gas because the price of gas is 1/10 of a penny less, businesses that may invest tens or hundreds of millions of dollars will be even more sensitive to similarly small changes in the state's tax rates.

If businesses are sensitive to very small changes in tax rates, then passing a bill that lowers taxes will invite new investment into the state, and the bill's Fiscal Note should reflect the new revenue to the state from the taxes on the new investment. That new revenue would mean the state would have more revenue in its various funds, precisely because the Legislature lowered the

tax rate.

This kind of "dynamic" Fiscal Note has its challenges, though. The Legislature has to decide how far to follow these investment decisions. While all of these decisions occur naturally in the real world, attempting to predict them can be quite difficult. And the further removed from the known change (the change in a tax rate in a given bill), the more assumptions (each of which could be wrong) are built into a Fiscal Note.

Fortunately, economists are becoming increasingly adept at making nuanced, accurate assumptions about how individuals and businesses respond to tax changes. The Legislature has purchased software that the Governor's office and legislative staff use to forecast revenues.

They can use this exact same software in producing dynamic Fiscal Notes.

Legislative staff have already begun experimenting with dynamic Fiscal Notes. When the Legislature raised the **cigarette**

tax in 2010, the **Fiscal Note** discounted the projected revenue from the tax hike based on fewer Utahns smoking, and more Utahns travelling to Wyoming and Idaho (where cigarette taxes are lower) to purchase their cigarettes. Raising the cigarette tax was bad policy, and your Taxpayers Association opposed it. However, I'm glad Legislative staff dipped their toe into the dynamic Fiscal Note world.

The Legislature faces other challenges in moving to dynamic Fiscal Notes. Dynamic Fiscal Notes take more time than static ones. One way to overcome that challenge is to limit which bills may have a dynamic Fiscal Note. For example, to start we might only use dynamic Fiscal Notes on tax bills approved by the Interim Revenue and Taxation Committee. Legislative staff would then have several weeks to create dynamic Fiscal notes for bills approved by the Interim Committee in its October or November meeting.

Another challenge presented by dynamic Fiscal Notes is assumption error. If any of the assumptions in the dynamic Fiscal Note process are off, the size of budget gaps (as revenues actually come in) could be larger. As the Legislature moves toward dynamic Fiscal Notes, we should increase the size of our Rainy Day Funds. Larger Rainy Day funds provide a hedge against changes in the market that run counter to the assumptions in the dynamic Fiscal Notes.

While dynamic Fiscal Notes are more difficult and may be more speculative, dynamic Fiscal Notes will also shrink the size of government, and give more people more opportunity. I will continue to push our legislative staff to adopt dynamic Fiscal Notes.

"Government's view of the economy could be summed up in a few short phrases: If it moves, tax it. If it keeps moving, regulate it. And if it stops moving, subsidize it."

-Ronald Reagan

34th Utah Taxes Now Conference a Success



**Governor
Gary Herbert**

Legislative leadership, Governor Gary Herbert, Attorney General Mark Shurtleff, Congressman Jim Matheson and Mayor Mia Love joined the 2012 Utah Taxes Now Conference to explore "Improving Utah's Economy, by Improving Utah's Tax Structures."

Nearly two hundred attendees joined presenters to discuss the implications of the Affordable Care Act (Obamacare), why Utah continues to lead the nation in economic performance and outlook, and how

property, sales and income taxes could evolve in the face of population growth, infrastructure needs and a 21st Century economy.

AG Mark Shurtleff - Obamacare

AG Mark Shurtleff recounted Utah's role in the lawsuit against Obamacare. He noted the importance of Utah's



Mayor Mia Love

legislature in providing standing before the Supreme Court. With the SCOTUS set to rule sometime in June, many businesses are wondering how the new healthcare law will affect their bottom line.

4th Congressional Race

Congressman Jim Matheson and his opponent, Mayor Mia Love, both joined the 34th Utah Taxes Now Conference to share with the group their vision for the country. Rep. Matheson shared his hope that a

bipartisan group could tackle the difficult issue of tax reform, noting that the last significant reforms came in 1986. Mayor



**Congressman
Jim Matheson**

Lifetime Service and Taxpayer Advocate of the Year

Keith Prescott received the Lifetime Service Award for his service on the Tax Recodification Commission and Tax Review Commission. Mr. Prescott was instrumental in reforming Utah's high 7% income tax, which was seen as the biggest deterrent to attracting corporations with high wages. He has provided countless hours of service to Utah Taxpayers.



Keith Prescott

The Taxpayer Advocate of the Year Award was given to



David Crapo

David Crapo, of the law firm Crapo Smith PLLC. His tireless work in making sure that erroneously paid taxes would be refunded, whether it was sales, income or property brought relief to many Utah taxpayers. As a result of his hard work, SB 27 won passage in both houses of the Legislature.

Which Local Governments are Raising Taxes?

Your Taxpayers Association annually audits the budgets of all 41 school districts and the 40 largest cities in Utah. Unfortunately, a few cities are proposing property tax increases. They include Orem, Taylorsville, West Jordan and Highland.

Orem is proposing a \$3.3 million tax hike, of which \$2.8 million will go towards the debt owed on UTOPIA. The remaining amount will go to fund employee raises. Your Taxpayers Association has encouraged Orem to review its employee compensation compared to the private sector, and determine if this is necessary. Often times, municipal employees salaries fall below their private sector peers, but when total compensation is measured, the compensation is comparable, if not greater. For example, Sandy considered employee compensation in 2011 and determined to reduce new hires starting pay by 5%.

Taylorsville has proposed increasing its property tax by 38% to cover maintenance and other services. What's concerning is that Taylorsville is also considering bonding for an additional \$4mil? for economic development purposes. The economic

development, as we understand, would include incentives for businesses to locate in Taylorsville. The obvious motive for this is the collection of sales taxes, which is currently distributed based on point of sale and population (50/50).

West Jordan is proposing a 17% tax increase to make up for an annual shortfall of \$2.7 million in sales tax revenue since 2008. This increase is to maintain current service levels, but there may be more opportunities for savings.

Highland has proposed a 69% tax increase. The drastic increase is for road and park maintenance. Your Taxpayers Association is working with the city to find a less harsh solution for taxpayers.

"Why does a slight tax increase cost you two hundred dollars and a substantial tax cut save you thirty cents." - Peg Bracken

2012 Budgets, Taxes, Hearing Dates – Cities and School Districts

2012 Budgets, Taxes and Hearing Dates - Cities

City	Tax Increase?	Budget Hearing Date	Budget Hearing Time	Truth In Taxation Hearing Date	Truth In Taxation Hearing Time	Health Insurance Increase?	Pay Increase?
Bountiful	No	12-Jun	7:30pm	N/A	N/A	10%	2%
Cedar City	No	23-May	7:00pm	N/A	N/A	22.5%	0%
Clinton	No	21-Jun	7:00pm	N/A	N/A	4.9%	2%
Cottonwood Hts	No	22-May	7:00pm	N/A	N/A	11%	3%
Herriman	No	24-May	6:00pm	N/A	N/A	3.9%	4%
Highland	Yes	19-Jun	7:00pm	TBD	TBD	TBD	TBD
Layton	No	21-Jun	7:00pm	N/A	N/A	0%	1.65%
Lehi	No	TBD	TBD	N/A	N/A	2.5%	2.5%
Midvale	No	19-Jun	7:00pm	N/A	N/A	11.2%	3.75%
North Ogden	No	12-Jun		N/A	N/A	0%	0%
Ogden	No	5-Jun	6:00pm	N/A	N/A	7%	0%
Orem	Yes	12-Jun	6:00pm	14-Aug	6:00pm	TBD	TBD
Pleasant Grove	No	6-Jun	6:00pm	N/A	N/A	9%	3%
Provo	No	5-Jun	7:00pm	N/A	N/A	12%	2.5%
Riverton	No	5-Jun	6:30pm	N/A	N/A	3.3%	3%
Roy	No	6-Jun	6:00pm	N/A	N/A	7-9%	0%
Salt Lake City	No	5-Jun	6:30pm	N/A	N/A	0%	0%
Sandy	No	22-May	7:00pm	N/A	N/A	8.4%	2%
South Jordan	No	5-Jun	6:00pm	N/A	N/A	.26%	1.89%
Springville	No	5-Jun	7:00pm	N/A	N/A	.4%	2.2%
St. George	No	7-Jun	5:00pm	N/A	N/A	8.6%	2%
Syracuse	No	TBD	TBD	N/A	N/A	6.8%	0%
Taylorsville	Yes	20-Jun	7:00pm	TBD	TBD	TBD	TBD
West Jordan	Yes	13-Jun	6:00pm	TBD	TBD	TBD	TBD

* Still awaiting reply from: American Fork, Brigham City, Centerville, Clearfield, Draper, Eagle Mountain, Farmington, Holladay, Kaysville, Logan, Murray, North Ogden, Payson, South Salt Lake, Spanish Fork, Tooele, Washington and West Valley City.

2012 Budgets, Taxes and Hearing Dates – School Districts

School District	Tax Increase?	Budget Hearing Date	Budget Hearing Time	Truth In Taxation Hearing Date	Truth In Taxation Hearing Time	Health Insurance Increase?	Pay Increase?
Alpine	TBD	19-Jun	6:00pm	14-Aug	6:00pm	0%	0%
Cache SD	No	7-Jun	5:30pm	N/A	N/A	0%	0%
Canyons	No	12-Jun	7:30pm	N/A	N/A	0%	1%
Carbon SD	No	13-Jun	6:00pm	N/A	N/A	TBD	TBD
Davis SD	No	19-Jun	6:00pm	N/A	N/A	5%	1%
Duchesne SD	No	14-Jun	6:00pm	N/A	N/A	6.5%	0%
Emery SD	No	19-Jun	1:00pm	N/A	N/A	7.6%	0%
Granite SD	TBD	12-Jun	7:30pm	TBD	TBD	6%	.25%
Iron SD	No	19-Jun	7:00pm	N/A	N/A	.57%	1.35%
Logan SD	TBD	19-Jun	6:00pm	14-Aug	6:00pm	TBD	TBD
Millard SD	No	14-Jun	6:00pm	N/A	N/A	TBD	0%
Murray SD	No	7-Jun	6:00pm	N/A	N/A	12.4%	0%
No. Summit SD	No	TBD	TBD	N/A	N/A	6.5%	TBD
Ogden SD	No	14-Jun	5:00pm	N/A	N/A	0%	0%
San Juan SD	No	15-May	6:30pm	N/A	N/A	-2%	1.5%
Sevier	No	20-Jun	6:00pm	N/A	N/A	6.5%	0%
Uintah SD	No	12-Jun	7:00pm	N/A	N/A	6.5%	TBD
Wasatch SD	No	14-Jun	6:30pm	N/A	N/A	6.5%	0%
Weber SD	No	13-Jun	6:00pm	N/A	N/A	0%	0%

* Still awaiting reply from: Beaver SD, Box Elder SD, Canyons SD, Daggett SD, Garfield SD, Grand SD, Jordan SD, Juab SD, Kane SD, Morgan SD, Nebo SD, No. Sanpete SD, Park City SD, Piute SD, Provo SD, Rich SD, Salt Lake SD, So. Sanpete SD, So. Summit SD, Tintic SD, Tooele SD, Washington SD and Wayne SD

The Utah Taxpayers Association has requested the budgets of Utah’s 40 largest cities and all 41 of Utah’s school districts. Most cities and school districts are balancing their budgets without tax increases, however several cities and school district are proposing a tax increase or have not ruled out a tax increase. Those cities and school districts are highlighted in red.

All cities and school districts will be holding budget hearings throughout the summer. Use the adjacent tables to view the date and time of your school district or city’s budget hearings.

For continuously updated information on hearing dates and times, proposed tax increases, proposed increases in health insurance costs and proposed increases in employee compensation, visit

www.utahtaxpayers.org.

If your city isn’t included in our survey or for additional information about budget hearings, truth in taxation hearings and other council proceedings in your community, visit the Utah Public Meeting Notice website at <http://www.utah.gov/pmn>.