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UTOPIA Audit Reveals Many Problems

On Wednesday, August 1, the Office of the Legislative Auditor General released its performance audit of UTOPIA. Sadly, their audit found an organization saddled with debt, rife with mismanagement, and unwilling to accept responsibility for their poor decision-making.

Regular readers of "The Utah Taxpayer" know that UTOPIA is a collection of 11 cities which in 2002 joined to create their own municipal telecom company. (UTOPIA's member cities are Tremonton, Brigham City, Perry, Layton, Centerville, West Valley City, Murray, Midvale, Lindon, Orem and Payson.) We have argued time and again that cities should not be in the business of business, and that the private sector is more than willing to risk its own capital to build a telecom company, when there is sufficient demand.

UTOPIA hasn't attracted enough subscribers

The audit confirms the concerns we and many others have expressed about UTOPIA. "In most areas where construction has been completed, UTOPIA has insufficient subscribers to cover the cost of building and operating the infrastructure" (page 5). The audit offers "two possible explanations for the agency's poor performance … (1) demand for UTOPIA's product has not been high enough, and (2) UTOPIA has been unable to meet existing demand sufficient to reach agency projections."

In its defense, UTOPIA argues that total subscribers to the network are less important than average revenue per user (ARPU). "In fact, ARPU is arguably a more-important metric that number of subscribers when it comes to measuring our financial success" (UTOPIA response, page 76).

We agree with both the auditor and UTOPIA on this point. For UTOPIA to pay their bills, they need a minimum number of subscribers, and those subscribers have to pay enough to cover their costs. As an illustration, suppose UTOPIA has just 3 subscribers. If those subscribers each pay $3 million per year, they would more than cover UTOPIA's approximately $7 million in operating expenses. By contrast, if UTOPIA's 9,480 subscribers pay an average of just $600 per year, UTOPIA's operating revenues would be less than $6 million, and UTOPIA would be operating in the red.

The audit also notes UTOPIA's well-known operating deficits and huge negative net assets. "Since 2003, UTOPIA has had nine consecutive years of operating losses. These annual deficits have caused serious damage to the agency's financial position. At the end of fiscal year 2011, UTOPIA had total net assets of negative $120 million" (page 9).

Management problems continue to plague UTOPIA

The auditors note significant concerns with UTOPIA's management. Some of UTOPIA's older management decisions sound like fake headlines from The Onion (E.g., "Local telecom company builds million dollar cubicles from outdated electronics"). More troubling are the ongoing management problems the audit highlights. For example, on page 32 the auditors write, "in the past five years of operation, UTOPIA has failed to reach its target take rates (projections for subscribing residents)."

UTOPIA officials argue that the current management team (installed in 2008) resolved the problems highlighted in the report. "In 2008, the agency took a number of significant steps to address and correct mistakes," such as the new management team (UTOPIA response, page 76). As UTOPIA's board chair Kane Loader told the Deseret News, "We're the ones who pointed out the shortcomings and the mistakes that were made in the past."

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UTOPIA churns through customers

Unfortunately, these management problems continue. The auditors further note that for UTOPIA's current plan to meet financial projections, UTOPIA needs 450 subscribers per month (page 34). However, from July 2011 to April 2012 they averaged just 190 new subscribers per month, or a total of 1,900 new subscribers (page 34). As page 8 of the audit notes, however, over that time UTOPIA's total subscribers increased by 768, from 8,572 to 9,340. In other words, UTOPIA gained 1,900 new subscribers and lost 1,132 subscribers.

Some of UTOPIA's older management decisions sound like fake headlines from The Onion (E.g., "Local telecom company builds million dollar cubicles from outdated electronics")

UTOPIA's inability to maintain its existing customer base is hardly new. As the report notes, problems with one of its previous providers cost UTOPIA 3,698 subscribers (page 26). However, the network's ongoing problems maintaining existing customers suggests that the "past" problems continue.

UTOPIA does not have adequate management controls

The audit notes other significant ongoing management failures by UTOPIA. "We cannot verify whether [UTOPIA's latest five-year plan] does in fact correct past mistakes because there is no formal written narrative describing the agency's new goals, objectives and policies that will guide the agency to a successful outcome" (page 41). Similarly, "we found that many of the agency's past practices have not changed. For example, the agency has not followed its commitment to invest funds only in those locations where 25 percent of residents agreed to purchase the service" (page 42).

The auditors express surprise at the apparent lack of control exercised by UTOPIA's board of directors. "Although the agency faces considerable financial and operational challenges, we were surprised by the lack of discussion of such matters during the board's regular monthly meetings. The board minutes also indicate that the board has received little information concerning the challenging problems faced by the agency."

Instead, UTOPIA's board of directors has turned its "oversight responsibility" to the executive committee. Having attended several of UTOPIA's executive committee meetings, they note that executive committee members receive detailed information on UTOPIA's budget, financial position and other matters. "However, this information is not presented to the full board of directors and is not typically discussed during the meetings of the full board" (page 52).

To resolve these issues, the auditors make several important recommendations. Specifically, the board should receive regular updates on UTOPIA's financial and operational performance, including actual versus budgeted expenditures, and actual versus board approved operation benchmarks (page 50).

Unfortunately, the tone and substance of UTOPIA's response to this audit do not offer hope that they will change their stripes. In their written response, UTOPIA flatly denies that there was ever a problem with one of the recommendations made by the auditors (UTOPIA response, page 78, recommendation #3). And as the audit clearly indicates, UTOPIA cannot continue to blame the previous management for their current problems.

My Corner: How to Stop The Medicaid Expansion Tax

Association President Howard Stephenson

In the words of humorist P.J. O'Rourke, "If you think healthcare is expensive now, wait until you see what it costs when it's free."

The recent Supreme Court ruling on the Patient Protection and Affordable Care Act (ACA) confirmed what many commentators have been saying since the bill was signed in March 2010: The ACA contains many provisions that constitute new taxes on Americans.

The most obvious example is the individual mandate that requires all adults to carry health insurance by 2014 or face a penalty payable as part of the individual income tax. The Court upheld this and most other provisions of the law as constitutional in view of Congress's power to tax – prompting critics of the legislation to emphasize the importance of the November elections as an opportunity to change the direction of public policy represented by the ACA.

In light of the ruling, the main decision now facing the State of Utah is whether to participate in the Medicaid expansion provided for in the ACA. Originally the ACA would have required states to participate in the expansion or risk losing all Medicaid funding. Fortunately, the Court ruled that such a threat to existing funding was unconstitutional and that each state must agree to or reject the expansion – without jeopardizing the existing funding to which it had previously agreed.

To understand the decision about expanding Medicaid, a little background may be helpful.

Created in 1965, Medicaid is the government program providing health insurance for people with low-incomes. About 67 million Americans are currently enrolled in this program. In Utah enrollment is about 374,000 – 57% of whom are children. Eligibility is established by income thresholds, generally between 100% and 200% (for families with young children) of the Federal Poverty Level. In Utah, Medicaid expenditures total about $1.9 billion, of which the federal government funds about 71% and the State funds the remaining $550 million.

The main decision now facing the State of Utah is whether to participate in the Medicaid expansion provided for in the Affordable Care Act

While Medicaid is fairly efficient in Utah compared to other states, most of the increase in expenditures (4.8% from 2010-2011) has been due to increases in enrollment. Simply put, more and more people are turning to Medicaid as their primary source of healthcare coverage.

With the Supreme Court upholding the core elements of the ACA, Medicaid is set to expand even further. Beginning in 2014, the standard income eligibility threshold raises from 100% of the Federal Poverty Level to 138%. And just like the credit card offer with the first few months of no interest, the ACA

promises that the federal government will pay 100% of the extra costs to cover newly eligible enrollees – but only for the first three years.

Beginning in 2017, the federal share of Medicaid cost will decline until it reaches 90% in 2020, where it is *supposed* to stay.

Medicaid expansion means that an estimated 139,000 uninsured Utah adults will become newly eligible for coverage. According to Utah's Medicaid Director Michael Hales, Utah will face an extra $240 million in new costs over the first 10 years, from 2017 to 2026. From 2027 to 2037, this expense will increase to $500 million. The source of this money is unknown, but these kinds of dollars are not found anywhere but within State education budgets -- or from new taxes.

As a result, some Utah policymakers are beginning to question the wisdom of Medicaid expansion. Given Washington's track record, they argue it would be unwise to count on 90% federal funding in perpetuity. When federal funding begins to recede, Utah will either need the political and legal ability to roll back the expansion, or it will have to increases taxes to cover the costs.

As it is, the ACA will already raise State Medicaid costs as the individual mandate induces another 58,000 currently eligible Utahns to sign up for Medicaid. These individuals will be subsidized at the current federal reimbursement level of 71%, rather than the 100% (then 90%) level for those newly eligible. According to a 2010 analysis by the Kaiser Commission on Medicaid and the Uninsured, Utah's extra cost for covering this population will be another $42 million for five years.

The financial challenge facing Utah as a result of the ACA is breathtaking. Deliberately committing to Medicaid expansion puts education, healthcare providers and virtually every Utah taxpayer at even further financial risk Medicaid is currently the second-largest program in Utah after public education. If policymakers are not vigilant, Medicaid could quickly grow to displace other programs or force new, higher taxes, or both.

Utah is nationally recognized as a leader in both Medicaid reform and in providing high-quality, affordable healthcare. Our recently enacted legislative reforms transitioning Medicaid from a fee-for-service model to a risk-sharing model are expected to dramatically bend the cost curve downward.

We would be ill-advised to agree to a new federal program in which we relinquish control over our state budget and fiscal destiny

The point is, Utah has a robust healthcare system and has a proven ability to address financing challenges before they become a crisis.

The Utah Taxpayers Association calls on the legislature to formally reject Obamacare's Medicaid expansion. Gov. Herbert should join other governors in rejecting it. Utah does not need the expansion. We would be ill-advised to agree to a new federal program in which we relinquish control over our state budget and fiscal destiny.

Utah's Authority to Collect Sales Taxes on e-Commerce

The following is testimony of Utah State Representative Wayne Harper before the Judiciary Committee of the United States House of Representatives on July 24, 2012 regarding State's authority to collect sales taxes on e-commerce.

Representative Wayne Harper

Thank you Chairman Smith, Ranking Member Conyers and Members of the Judiciary Committee for the invitation to talk to you today. Today, Congress is focusing on one of the most serious issues facing state authority over their taxes, and also one of the most challenging issues for our retailing community.

I am a Republican State Representative from Utah. I chair the House Rules Committee. I come before you today in my role as someone responsible for producing a balanced state budget, reducing government's burden on business and as the in-coming president of the country's most successful business tax simplification initiative.

Background

I appreciate the title of today's hearing: "Constitutional Limitations on State's Authority to Collect Sales Taxes on e-Commerce." That subject is of paramount urgency and importance. As you know, two US Supreme Court decisions of the previous century are the basis of this hearing and the situation in which states and business find themselves in this century. Since Bellas Hess was decided in the 1960's, I don't believe that anyone could have imagined how that Court's interpretation of the Constitution's limitations on state taxes would produce such an ominous effect for state budgets and for retailers that exist today.

When the Court decided Bellas Hess over four decades ago, this focus and issue was on catalog sales. While catalogs offered greater variety than many stores at that time, catalogs could not compete with local customer service and immediate availability. In contrast, today, one day and two day delivery of ordered goods is normal, and same day delivery is possible. Retailers are accustomed to competition and improved business and delivery models.

However, the crux of the issue Congress is addressing is the competitive advantage government grants certain retailers over others. The bottom line problem that exists today is the 6-10% government mandated price difference. Remote business selling the same product as a retailer in your home town has an inherently lower end transaction price. Government is picking retail winners and losers under the current Court decision.

The second case, Quill, circumscribed the state's authority over its own tax codes. In Quill, the US Supreme Court made it clear that a state's ability to employ an effective sales tax was going to depend on the authority granted by Congress under the Commerce Clause. I come before you today to ask you to exercise that authority and end the current government sanctioned business inequality.

e-Commerce Sales

According to the Department of Commerce e-commerce sales in 2005 were $87 billion. This year e-sales will total more than twice that amount. The quarterly e-commerce sales in 2011 increased on average 17% more than the same quarters in 2010, while total sales increased less than 8%.

While that difference may seem great, it is actually below normal for e-commerce sales. Prior to this year e-commerce sales increased at a much greater rate than did total sales. If e-

commerce sales are increasing at a rate greater than total sales, the difference must be sales that would have otherwise gone to a local retailer.

The stark truth is that local retailers across this country often find themselves acting as the display case for consumers who come in and try out the product but then go home and buy it on-line. Why? Because people want to save money on purchases and because there is a Court and government sanctioned incentive to buy remotely due to the Bellas Hess decision that remote sellers are not required to collect sales tax as are stores in your home towns.

The stark truth is that local retailers across this country often find themselves acting as the display case for consumers who come in and try out the product but

Bottom line is that states fund critical governmental services with sales tax. Certain retailers are not collecting due sales and use taxes on transactions, taxpayers generally are not remitting use taxes, and states are not receiving the taxes needed to either provide services or cut their tax rates. Let's investigate some of the arguments against parity and simplification.

Why the arguments against proposed federal legislation are wrong

First, Collecting is too complex

Some continue to argue that it is impossible or expensive to collect sales tax on-line or via a catalog. Every retailer today looks to automate everything that can be automated. Sales tax collection software exists, it works, and it is affordable. Computer technology and supply chain management have radically changed retailing. In many ways the Internet is the perfect environment in which to collect sales taxes because sales tax collection can be automated. Automation will allow for the collection of due sales tax via other sales methodologies, easily and inexpensively.

Second, Impact on small business

Some opponents will argue against placing another burden on businesses, and especially on small business. Unfortunately, today the burden is on those retailers who are trying to compete against someone who isn't collecting the tax. Your home town retailers are at the mercy of a 6-10% government mandated price advantage that is the real burden on most small business.

I submit that technology has so radically improved that the challenge issued by the Supreme Court has been answered and successfully resolved

The mom and pop businesses in each of your districts are fighting to survive, and are being discriminated against by last century's Court decisions and technology. For truly small businesses for which collecting sales tax truly could be a burden, Congress protects them with a threshold in all of the bills introduced. Congress also helps businesses that exceed the threshold and would be required to collect by 1) requiring states to simplify their laws and processes, and 2) by requiring states to provide software. These and other safeguards, I support.

Third, Collecting a tax that is already due is a tax increase

Some groups will tell you that these bills are a tax increase. That is not true. How is collecting a tax you owe, but are not paying, a tax increase? Use tax is on the books of nearly every state in the country. If this theory were taken to its logical extreme, every audit assessment would be a tax increase since someone is being forced to pay a tax they hadn't paid. The obligation to pay sales tax on retail sales, regardless of transactional location, exists today. Asking one retailer to collect sales tax, simply because they have a store in your town without asking the same of all retailers doesn't seem like equal protection under the law.

Fourth, States have not done enough to collect the tax owed today

Some groups claim that states don't do a good enough job collecting the use tax. Under current Court rulings, there are basically only two ways to collect use tax: have the retailer collect it, or educate and then audit consumers. There is nothing more inefficient, onerous or agitating than conducting an audit on individual consumers. To those who argue that states should engage in more audits, I would ask if they really think we should have a more intrusive collection system in which the average consumer will be made to feel as if they have a resident auditor at their kitchen table? I resoundingly say no!

Fifth, States have not simplified enough

Some opponents will say the states have not simplified their tax systems enough to warrant Congressional authority. In 1967 the Supreme Court said that with the various sales tax systems and the very limited technology that then existed, there was too much burden on retailers to allow states to require every business to collect. What the Supreme Court didn't answer was how much simpler the sales tax system would have to be and what technology would have to exist to rule differently. Technology has changed in every possible way since 1967. The debate since the Supreme Court's decision is how much simplification must be done.

I submit that technology has so radically improved that the challenge issued by the Supreme Court has been answered and successfully resolved. It is time now to eliminate the government sanctioned competitive advantage some retailers have over our local retailers. It is time to end government picking winners and losers in the retail community. It is time to treat all retail businesses the same. We believe Congress has the ability to balance appropriately the needs for simplification, state sovereignty in tax matters, and equity. We encourage you to make that decision and act now.

What is Utah's Transportation Funding Prescription?

Your Taxpayers Association focuses its efforts on making Utah a place where people want to build their lives and their fortunes. We want Utah's economy to grow. For our economy to expand, Utah's transportation infrastructure must be efficient, and keep pace with the growth both in our population and in how much we travel (typically measured in terms of vehicle miles traveled).

In pursuing these strategies, the Taxpayers Association relies on several keys to sound tax and fiscal policy. For example, a user fee is preferable to a tax. Where a user fee isn't feasible, the

tax should be as intimately related to the service provided as possible.

The federal and state gas taxes attempt to reflect those principles. Utah imposes a gas tax of $0.245 cents per gallon of gas, on top of the federal gas tax of $0.184 per gallon. Calculated based on the number of gallons purchased, the gas tax's user fee quality becomes ever more tenuous as cars become ever more fuel efficient.

Supplementing the gas tax

This tenuous link means the gas tax does not provide enough revenue to operate/maintain Utah's roads and to expand them, so Utah's state and local governments supplement the gas tax. The Legislature typically sets aside large portions of growth in sales tax revenue for road construction, which becomes a first line rainy day fund when the economy slackens. In effect, the Legislature treats booming sales tax revenue as one time revenue rather than expanding ongoing programs with revenue that may not continue.

Local governments receive a small proportion of the state's gas tax revenue, which they supplement from their sales and property tax revenue. Unfortunately, many Utah local governments do not spend enough on their road infrastructure to maintain it over time. Instead, they fund from one emergency to the next.

Because their share of the state's gas tax revenue is wholly inadequate to cover even a modicum of the maintenance and operations needs for their roads, and because road construction/maintenance is very "unsexy" (when compared with the opportunity to build a new city hall or rec center, for example), local governments often focus attention elsewhere until roads become a serous problem. Then they find they've created ongoing costs in the previous years and/or they've consumed their bonding capacity with other projects, and a permanent tax increase becomes their preferred alternative for addressing the one-time road expenses they face.

Road funding isn't sexy, so local governments postpone road funding

In the past two years, Syracuse, West Bountiful and Highland have all considered permanent property tax increases for road problems. Syracuse and Highland had little bonding capacity, because they had bonded for lavish city buildings. West Bountiful simply hadn't supplemented their gas tax revenues with sufficient property and sales tax revenue. Syracuse chose not to raise property taxes, but West Bountiful did, and Highland appears likely to raise their property taxes this year.

Provo's means of fixing their road problems creates different but related problems. About every ten years they bond to maintain and expand their road infrastructure. However, the bond revenue is typically gone seven years after their bond is approved. During that three-year gap between the term of the bond and when the bond proceeds are gone, their roads don't receive the attention they need.

Provo, Highland, Syracuse and West Bountiful (among others) could (and probably should) realign their spending and service priorities to better care for their roads. However, none of the policy decisions made by these cities can obscure the reality that the gas tax's structure and ever increasing fuel efficiency inhibits appropriate road investment. Without meaningful solutions to federal, state and local transportation funding, tax increases become the de facto solution.

Possible Policy Options

Replace the Gas Tax With A Tax Per Mile Driven

Perhaps the most elegant policy solution is to charge a tax on a per mile driven basis. The link between this tax and road usage is near perfect, and it is independent of ever increasing fuel efficiency.

Unfortunately, many Utah local governments do not spend enough on their road infrastructure to maintain it over time. Instead, they fund from one emergency to the next.

Oregon recently completed a statewide test of that model. They used satellite GPS to count the number of in-state miles participants drove, and charged participants $0.012 cents per mile. Participants did not have to pay the state gas tax.

Oregon found several advantages. First, it can be phased in. Voluntary participants in a VMT model received a credit at the pump against the gas tax they would have paid if they weren't paying the per mile tax. Second, the revenue source proved reliable, and the state could enforce its collection.

However, that solution faces serious political backlash from people who fear big brother snooping on them. This fear may be diminishing (since virtually everyone with a smart phone is glad they have the same technology on their phone!), but that civil libertarian fear is real and politically potent. Anyone advocating for a per mile driven solution has to account for that variable, and be prepared to counter it in the court of public opinion.

Other critics of a per mile tax worry that the size of the enforcement and collection bureaucracy necessary to make the system work would be too large for the benefit received. Your Taxpayers Association is always concerned about creating a new bureaucracy, so the Oregon experiment merits further study. Fortunately, the University of Iowa, Nevada, Minnesota, Pennsylvania, Maryland and several other states are examining a per mile tax system (see slide 30), so Utah won't have to be on the proverbial "bleeding edge."

Convert the gas tax to a sales tax

Another option is to convert the gas tax to a tax per dollar of gasoline purchased, just like a sales tax. That solution has the virtue of increasing revenue as the price of gas increases. However, a gas sales tax could end up as disconnected from actual travel behavior as the current gas tax is becoming.

Converting the gas tax from a per gallon to a per dollar basis also means the tax revenue would be volatile. Any number of changes in the world economy or the oil industry cause wide swings in the price of gasoline. There is good reason to worry about tying the state's transportation system to a funding mechanism that fluctuates wildly.

In addition, many in the business community oppose a gas sales tax, because it translates into an automatic tax increase as the price of gas increases. The cost of doing business increases every year, and the elected officials responsible for those increases face no accountability for those increases.

A variation on this conversion would tie the gas tax to some kind of transportation index, perhaps an index of the costs of road materials. Tying increases to an transportation construction index wouldn't be as volatile as the price of gas, and it would reflect average market conditions. At the same time, legislators need confidence that the chosen index doesn't artificially over- or

understate the cost of improving Utah roads.

Raise the gas tax every few years to account for increased VMT and inflation

Opponents of converting the gas tax to a sales tax (or to indexing the gas tax) typically note that they support regular increases in the size of the gas tax. Those increases allow state and local governments to maintain and expand roads, while providing a measure of political accountability for elected officials who impose them.

From this perspective, the same quality that makes the gas sales tax better than the gas tax is what makes it worse than the gas tax (if that makes sense). Your Taxpayers Association has historically belonged to this group, but the number of cities that raise property taxes to pay for one-time road fixes has us reappraising our position.

At least in Utah, it's hard to argue that relying on elected officials to raise the gas tax is a viable option. Because raising taxes is (thankfully!) such a politically painful option, Utah hasn't raised the gas tax since 1997. Since then, Utah's population has increased 37%, from 2,048,753 to 2,813,923 at the end of 2011. The number of vehicle miles travelled in Utah (VMT) has increased by 30.4%, from 20.4 billion in 1997 to 26.6 billion 2010. (2011 VMT data isn't yet available.)

Five years ago your Taxpayers Association advocated for a $0.25 per gallon increase in the gas tax (with a simultaneous and equal cut in the state income tax), and it went nowhere. In other words, saying that the optimal solution is an occasional increase in the gas tax is merely a way to kick the proverbial can down the road. It is a prayer, not a policy.

Use tolling to expand road infrastructure

Over the past two decades, states from Illinois to Texas to California have built used tolling and public private partnerships (P3) to expand their road infrastructure. Companies around the world have shown a remarkable willingness to front the capital necessary to build and maintain new highways, provided they can recoup their investment through a sufficiently long term operating and tolling agreement (typically 50 to 75 years).

These P3 agreements can work very well for federal and state highways, since they have redundant roads. Drivers can use the toll road, and other options exist for drivers who prefer the congestion of non-tolled roads. For local roads, P3 agreements and tolling may be less feasible (though in particularly dense cities like London, Stockholm and Singapore, cordon pricing has reduced congestion).

Status quo is not viable

As this article demonstrates, there are no easy solutions to maintaining and expanding Utah's road infrastructure. Public education and transportation are the two most important things state and local governments can improve to keep Utah's economy growing. However, there is NEVER enough money to do everything Utah wants to do in these areas, or in many other areas. We must find funding mechanisms that make our road use most efficient, while also providing a minimum amount of funding to keep the economy going. It's hard to argue that the current gas tax succeeds on either count.

New Report Claims Pension Reform is not Enough

As a result of the 2008 market crash, many state legislatures began to re-examine their public pension funds. Utah led the way in reforming public pensions with the passage of SB 63, which changed the way public pensions in Utah were set up. Utah's public pensions went from a defined benefit program to a defined contribution program, meaning that Utah taxpayers would no longer be on the hook for unexpected costs of benefits when public employees retire, but instead would increase its contribution from 8% to 10% of an employees pay towards retirement benefits.

Despite the reforms in Utah, a new report by State Budget Solutions, a non-profit think tank focusing on state governments and budgets, analyzing public pensions in the United States suggests that Utah may still have to face some unsavory facts due to the current accounting methods used to determine liability of a public pension.

Currently, public pensions in the United States use accounting rules set by the Governmental Accounting Standards Board (GASB). Public pensions, under these rules, discount liabilities using the rate of return the plan assumes will be generated by the portfolio of assets it holds. Using this method of accounting, the average state and local pension plan is about 75 percent funded. But, critics argue that using a different accounting method, such as those employed in private sector pensions and some foreign governments like Canada and the UK, would result in more realistic numbers.

One such accounting method, fair market valuation, suggests that the discount rate applied to a benefit liability should have nothing to do with how the plan's assets are invested. Rather, the discount rate applied to a liability should be based on the risk of the liability itself and not on any of the assets used to fund the liability. When public pensions in the US are measured by this method, state and local pensions are only 41 percent funded, 34 percent less than the current accounting method. The chart above shows the discrepancy in funding ratios when using different methods of accounting.

Table 2. Range of funding ratios under GASB accounting and fair market valuation.

	Assumed investment return	Funding ratio: GASB	Funding ratio: market
Median	8.0%	74%	39%
Mean	8.0%	74%	41%
25th percentile	7.8%	64%	35%
75th percentile	8.0%	83%	47%
Min (Illinois SERS)	6.0%	36%	18%
Max (Washington LEOFF Plan 2)	8.5%	126%	68%

Author's calculations based on Public Plans Database data.

Source: State Budget Solutions. Public Sector Pensions: How Well Funded Are They, Really?.
http://www.statebudgetsolutions.org/doclib/20120716_PensionFinancingUpdate.pdf

Despite claims that the current rules used by GASB provide a reliable picture of the health of public pensions, the GASB has instituted a couple of rule changes, which suggests the current

accounting practices may not present an accurate picture. First, pensions now must rely on the market value of assets when comparing assets to liabilities, instead of methods that "smooth" the investment losses and gains over a 5 to 10 year period. By eliminating the ability to "smooth", this "would show the true volatility of plan funding and the degree to which even supposedly healthy plans depend upon risky investments." Second, the discount rate used to value plan liabilities would change, meaning that the rate that was applied to benefits could only be applied for the period in which the plan's assets are expected to last.

The author of the report concludes that, "any step toward reality would seemingly be welcome." Utah has taken steps to address the issue of funding public pensions. But, this report is a stark warning that until the accounting methods used to determine a pensions level of funding is changed, numbers from the GASB are circumspect at best.

To view the complete report and more information from State Budget Solutions, click here.

2012 Truth In Taxation Hearings

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.

Orem

This budget year Orem City will continue to pour taxpayer dollars down the UTOPIA drain. To cover their UTOPIA bill, Orem City is proposing a $3.3 million property tax increase. Refreshingly, Orem City officials are acknowledging that the property tax increase is related to the UTOPIA bill. Other cities have not been so honest.

Highland

Taxpayers in Highland are facing a 63% property tax increase, which means that the average homeowner will see their property taxes rise from $242.60 to $383.20 per year. The tax increase, as explained by city council members, is to fund desperately needed road projects. Bonding, it seems, is out of the question because the city has reached its bonding capacity due to lavish new city buildings, including city hall.

Taylorsville

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 $4 million 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

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, including eliminating the proposed 2% pay increase for city employees.

Salt Lake Valley Law Enforcement

In 2011, your Taxpayers Association was successful in eliminating the Salt Lake County police fee. As a result, the Salt Lake Valley Law Enforcement Area has decided to increase property taxes to pay for police services rather than relying on sales tax revenues.

August 2012 Truth In Taxation Hearing Dates and Times

Taxing Entity	TnT Date	TnT Time	% incr.
Salt Lake Valley Law Enforcement	2-Aug	6:00	NEW
Elwood Town	7-Aug	7:00	3.10%
Highland City	7-Aug	7:00	58.00%
Harrisville City	7-Aug	7:00	102.80%
Uintah City	7-Aug	7:00	76.10%
Carbon County School District	8-Aug	5:00	2.30%
Beaver County School District	9-Aug	6:00	1.10%
Manila Town	9-Aug	7:00	119%
Grand County School District	9-Aug	6:00	8.40%
Salt Lake Suburban Sanitary District	9-Aug	6:00	89.80%
Grand County School	9-Aug	6:00	8.40%
Logan City School	14-Aug	6:00	0.80%
Daggett County	14-Aug	6:00	0.90%
Morgan County	14-Aug	7:30	1.80%
Salt Lake City	14-Aug	7:00	1.30%
Taylorsville City	14-Aug	6:00	14.50%
West Jordan City	14-Aug	6:00	15.50%
West Valley City	14-Aug	6:30	0.40%
Monticello City	14-Aug	7:00	6.60%
Kamas City	14-Aug	7:00	18.50%
Orem City	14-Aug	6:00	50.50%
Oquirrh Recreation and Parks district	15-Aug	7:00	14.00%
Summit County Service Area #6	15-Aug	6:00	21.50%
Municipal Type Service Area	15-Aug	6:00	51.70%
Mantua Town	16-Aug	6:00	37.20%
Hurricane City	16-Aug	6:00	14.20%
Park City School	21-Aug	6:30	89%
Tooele County School	21-Aug	6:30	9.10%