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Audit: Utah Retirement Systems Exaggerates Rate of Return

Concerns about public pensions have been squarely in the public eye nationally for many years. The State Retirement System of Illinois was recently fined by the SEC for failing to disclose the dismal state of its pension during a bond offering while the California Public Employees Retirement System is significantly underfunded and former pension officials have been charged criminally for their behavior. Reports of the underfunded state of public and private pensions cause employees to wonder what will be available in retirement and make taxpayers anxious of what type of financial burden they will bear to prop up those public sector pensions.

To assess to what extent Utah's taxpayers may face some of these same expensive problems the Office of the Utah State Auditor recently completed a performance audit of the Utah Retirement Systems (URS), Utah's public employee pension system. The audit focused on two key areas. First, the Auditor studied assumptions URS uses to determine assumed investment rates of return, and the associated required contributions by Utah taxpayers to pay for future pension obligations for Utah's state and local public employees. Second, the Office looked at the transparency in how URS conducts its business.

Overly optimistic investment assumptions do not disclose key risks and place public employees' pensions at risk

The Utah State Retirement Board establishes an assumed investment rate of return that determines the level of contribution needed from the taxpayers each year to fund current and future pension obligations. Based on analysis of investment forecasts from the six consultants used by URS in its most recent actuarial experience study, the performance audit concludes that URS' currently assumed investment return rate appears optimistic. Using forecasts provided by URS' actuary, the Auditor determined the noncontributory pension system has a 43 percent probability of meeting or exceeding its currently assumed 7.50 percent return. A more realistic assessment of the data shows that URS has a 50 percent probability of meeting or exceeding a 6.8 percent return. These ranges

35th Annual "Utah Taxes Now" Conference

Your Taxpayers Association will be hosting its annual "Utah Taxes Now" conference on **Thursday, May 23, 2013** at the Little America Hotel. Leaders from the Utah House of Representatives and Senate, the Governor's office, policy experts and community leaders will discuss a broad range of tax issues, including taxpayer subsidies for hotels, federal and state tax alignment and reducing the costs of doing business by removing double taxation.

CLE and CPE credit is available.

Teed Off On Taxes Golf Tournament

Join the Utah Taxpayers Association for their annual "Teed Off On Taxes" golf tournament on **Thursday, June 6, 2013** at the Eaglewood Golf Course in North Salt Lake. Sponsorship opportunities are available.

To register, contact Heidi Erickson at heidi@utahtaxpayers.org or 801-972-8814

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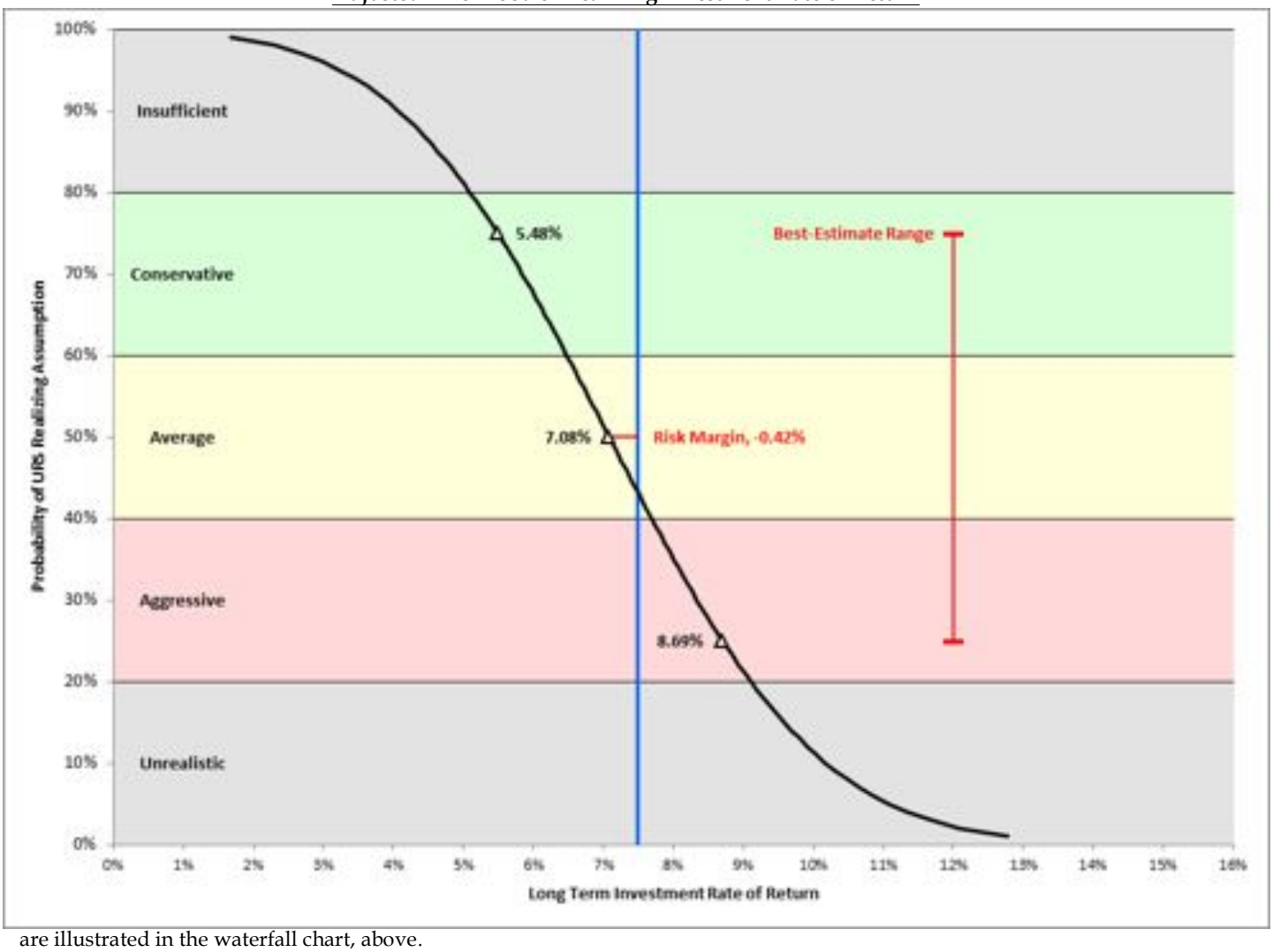
Adjusted Likelihood of Realizing Investment Rate of Return



are illustrated in the waterfall chart, above.

Increased Ongoing Contributions Are Required for Unrealized Assumed Rates

If investment returns are unable to achieve the optimistic returns, significant increases in contribution rates will be required. Long-term failure to meet or exceed the assumed rate results in underfunding that must be addressed through increased contribution rates to protect the solvency of the pension system. A range of impacts is shown in the table below.

Budgetary Impact of Changes to the Assumed Investment Rate of Return

Assumed Investment Rate of Return	Contribution Rate	Immediate Ongoing Budgetary Impact (in millions)
7.50%	20.46%	-
7.25%	22.23%	$54 million
7.00%	24.06%	$110 million
6.75%	25.95%	$168 million
6.50%	27.93%	$228 million

Source: URS Actuary - Gabriel, Roeder, Smith, and Company

When assumed rates of return are lowered, current contributions must increase to maintain funded status. If the URS assumes a long-term rate of return that is too low, current required contributions will be too high, placing a burden on current State tax revenues and crowding out other important government spending.

Conversely, if the assumed rate of return is too high, or too optimistic, then the compounding of current contributions will be insufficient to meet future promises and Utah may find itself in the same situation as states such as Illinois and California, with underfunded systems that require drastic actions in order to remain solvent.

Lack of URS transparency keeps critical information from stakeholders

In addition to examining the URS investment assumptions, the Auditor also examined URS' practices in terms of transparency. Contrary to best practices in all western states, URS does not disclose to the stakeholders actuarial reports regarding investment rate forecasts and other underlying assumption. Unfortunately, this lack of transparency by URS about key assumptions means that taxpayers, covered beneficiaries, the Governor, and the Legislature don't have key information to make sound policy decisions. Pension obligations in many states are threatening to destroy state budgets. Utah is proud of its designation as the "best managed state in the nation," but if pension obligations for public employees are not wisely managed, that designation, and corresponding bond rating could be impaired.

Public Access to Western States' Public Pension Information

The audit also expresses concerns because URS claims that it is exempt from Utah's *Open and Public Meetings Act* and the

System	Are board meetings open to the public?	Are actuarial reports & assumptions available to the public?
Arizona State Retirement System	Yes	Yes
California Public Employees Retirement System	Yes	Yes
Colorado State Employees Retirement System	Yes	Yes
Idaho Public Employee Retirement System	Yes	Yes
Montana Public Employees Retirement Board	Yes	Yes
New Mexico Public Employees Retirement Association	Yes	Yes
Nevada Public Employees Retirement System	Yes	Yes
Oregon Employees Retirement System	Yes	Yes
Utah Retirement Systems	**No**	**No**
Washington Department of Retirement Systems	Yes	Yes
Wyoming Retirement System	Yes	Yes

Source: Office of the Utah State Auditor analysis

Government Records Access and Management Act (GRAMA), even though URS is statutorily defined as "an independent state agency" and relies on public funding to remain solvent. This lack of transparency hinders policymakers and other stakeholders from accurately assessing the pension systems' risk.

In a recent article for the Wall Street Journal, "Pushing for a Peek at Pensions' Secrets," author Michael Corkery reports, "Utah pension officials say the retirement system has been exempt from open-records and -meeting laws since its inception in the 1960s because it functions as a trust, not a typical public agency. 'We are not doing the public's business,'" said Mr. [Robert] Newman, the pension's executive director."

If taxpayers are "on the hook" for shortfalls in investment returns, then it is hard to accept that the URS is "not doing the public's business." Recent increases in State contributions to the URS, to as much as 20 percent of the salary for State employees and teachers, and even higher for public safety employees, show that Utah taxpayers are on the hook to pay for investment shortfalls. As such, the public should know what the URS and its managers are doing.

My Corner: Tax Myths Debunked

Association President Howard Stephenson

Despite all of the Keynesian deficit spending remedies enacted since the great recession started in 2007, the US economy continues to experience weak economic growth. And it should be no surprise, according to a new report by the American Legislative Exchange Council. The report, entitled "Tax Myths Debunked," authored by Ph.D. economists Eric Fruits and Randall Pozdena noted that the big, long lasting change from these failed attempts is the huge debt burdening the US economy.

The debt total now exceeds the entire annual gross domestic product (GDP) of the nation. The report shows that a high debt-to-GDP ratio causes economic growth to slow and risks an extended period of unparalleled economic malaise.

Fruits and Pozdena debunk seven tax myths commonly accepted by Keynesians and even some who consider themselves fiscal hawks.

Myth # 1 – Increased government spending stimulates the economy during recessions.

This myth is driven by the mistaken belief that public spending is equivalent to private spending, provides stimulus and stability in a recession and has no offsetting adverse effects on savings and investments. John Maynard Keynes advocated this in the 1930s and was erroneously credited with the recovery from the Great Depression. The study cites the Austrian School's argument that deficit spending to stimulate the economy is as illogical as a policy of trying to overcome a hangover by drinking even more. Numerous national and cross-country studies are cited to dismiss this myth.

Myth # 2 – Lower tax rates are bad for the economy in a recession.

This myth is a corollary of the notion that public spending is stimulative and stabilizing in periods of weak private spending. The expectation of future, higher tax rates leads to an offsetting retrenchment in private consumption and investment that neutralizes any effect of deficit spending.

The authors demonstrate quite conclusively through historical economic analysis that there is actually a negative correlation between progressivity in marginal tax rates and the share of revenue in GDP.

Myth #3 – Raising tax rates will not harm economic growth.

Ironically, the study shows, Professor Christina Romer, President Obama's own head of his Council of Economic Advisors has demonstrated that each 1% increase in taxation lowers real GDP by 2 to 3% and that investment falls sharply in response to tax increases.

Myth #4 – Austerity in the form of spending cuts will harm growth and employment.

The secret to successful austerity measures is to combine spending cuts with tax cuts, not tax increases. Policy that creates uncertainty in the market through conflicting goals or disincentives for labor and capital hampers the prospects and pace of recovery.

A recent Brookings Institution report showed that those states that raised revenues the most, tended to remain with the largest budget imbalances. Those who believe this austerity myth generally point to Europe as an example, but European countries have consistently passed measures that raise taxes in order to balance budgets, triggering a further stunt in economic growth.

Myth #5 – Real household income has not grown in the past 20 years.

This is a popular myth that even unadjusted data does not support. Median family incomes are twice as high in real, inflation adjusted dollars in the 2000s as they were in the 1950s. Family incomes have had stable increases in every decade since the end of WWII. Only data that does not account for changes in compensation, tax practice, and social demographics can even remotely be construed to support this myth.

Myth #6 – The distribution of income is increasingly inequitable.

This myth assumes that the same group that was in the highest income quartile in, for example, 1995, is the same group that remains in the highest income quartile in 2005. This myth does not take into account the high rate of economic mobility among U.S. workers. The rate of falling from the highest income category in a ten-year span was 58%, while in the same time span, 56% of workers from the lowest income, moved to a higher income quartile.

Myth #7 – Raising tax rates on the rich will not harm the economy.

It is relatively easy to get 99 percent of voters to support increasing taxes on the richest 1 percent. The real question is, does it generate enough revenue? Increasing taxes by 10 percent on the top 10 percent of the income distribution would raise only $340 billion. Those making $110,000 or more a year would be affected. An aggressive tax increase policy could barely cover one fiscal year's interest on the outstanding debt. An even larger problem that arises with high rates, is that the pressure causes the taxpayer to inevitably withdraw his capital from productive business and invest it in tax-exempt securities or to find other lawful methods of avoiding the realization of taxable income.

The full report can be found at www.alec.org.

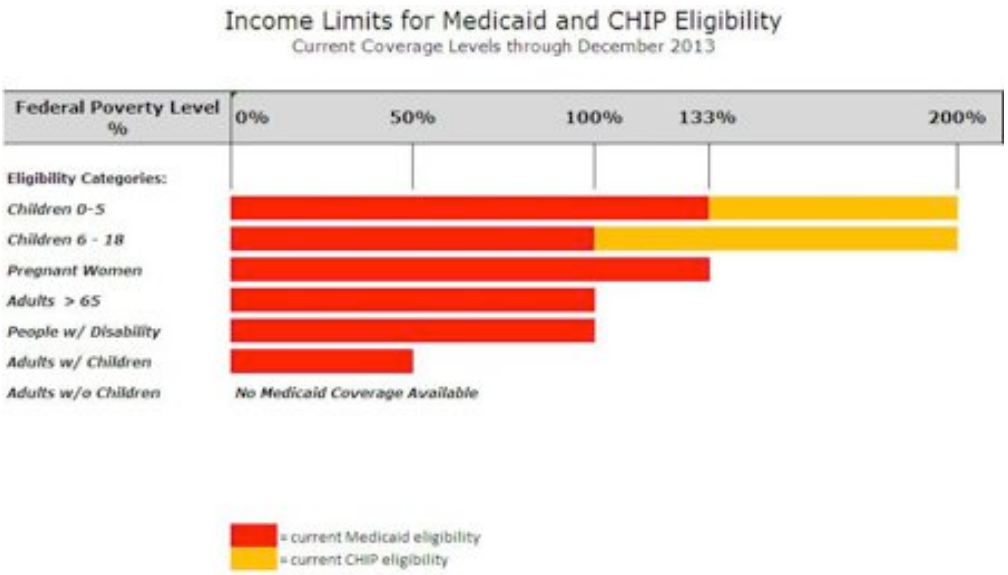
Should Utah Expand Medicaid Coverage?

The repercussions of the Supreme Court's 2012 decision upholding Obamacare continued to reverberate across the country. One of the most profound is whether Utah will expand Medicaid coverage to cover non-pregnant adults without children with incomes up to 138% of the federal poverty level (FPL).

This decision is fraught with implications, both for the state's fiscal health, and for the welfare of Utah's residents. On the one hand, national estimates anticipate that total spending by all states on Medicaid will increase 158 percent between 2010 and 2020. These increases are likely regardless of whether states expand Medicaid coverage. As noted in our January 2011 newsletter, Utah's growing Medicaid expenses have already begun to crowd out other important budget priorities.

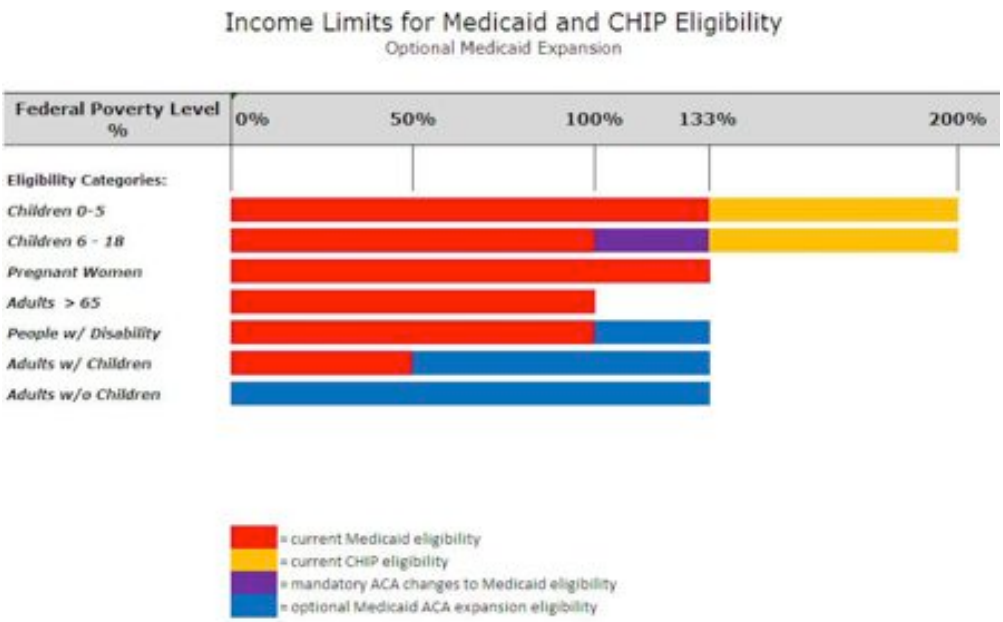
On the other hand, thousands of Utahns have no health insurance today. Some of these Utahns could purchase their own insurance, but choose not to. Others live in fear of the financial ruin an accident or serious illness may bring. Regardless, these Utahns increase insurance costs for all insured

Chart 1



Source: Utah Department of Health: Medicaid

Chart 2



Source: Utah Department of Health: Medicaid

Utahns, since federal law requires hospitals to provide emergency care, even for uninsured patients with no ability to pay. Uninsured Utahns also increase costs another way. When they do seek Medical care, it is typically in the emergency room, where costs are at their highest.

Utah's Medicaid Choices

The following graphs illustrate the basic categories of coverage Utah provides through Medicaid and the Children's Health Insurance Program (CHIP), and the choices Utah faces following the Supreme Court's Obamacare decision.

As Chart 1 indicates, Medicaid currently covers children under 6 and pregnant women whose income and family size are up to 133% of FPL. Medicaid also covers children between the ages of 6 and 18 up to 100% of FPL. Beyond those limits, CHIP covers children up to age 18 whose income and family size go up to 200% of FPL. Medicaid also covers adults over age 65 and people with a disability up to 100% of FPL. Medicaid covers adults with children, but who do not fit any other category, up to 100% of FPL. Medicaid does not currently cover adults without children that do not fit any other category.

Chart 2 shows the changes contemplated under Obamacare. First, note that Obamacare requires that Medicaid cover all children up to age 18 whose family income and size go up to 133% of FPL. Utah must do this.

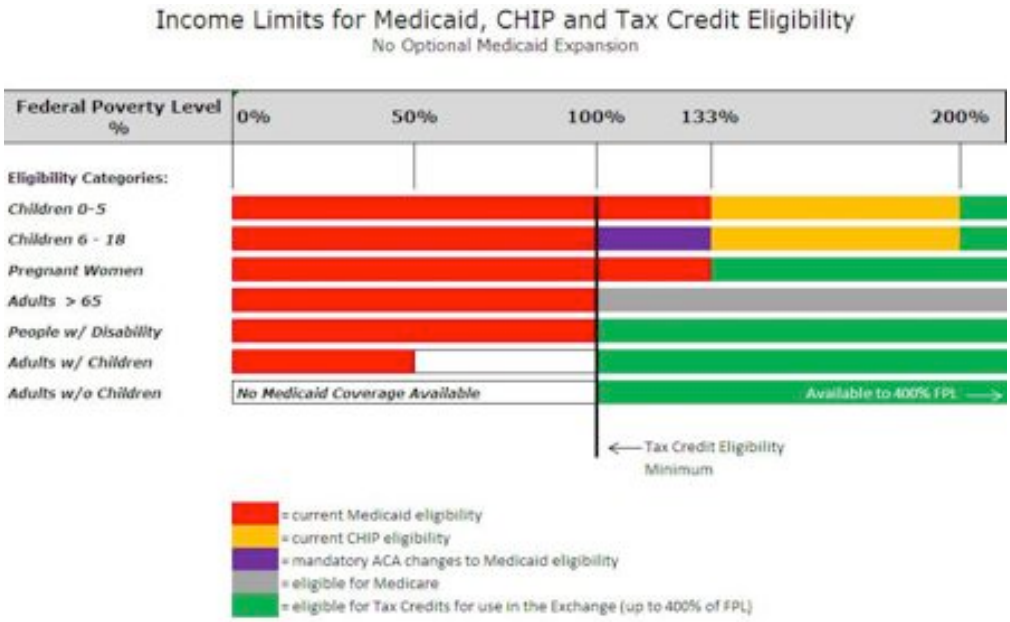
Second, note the three blue lines for people with disabilities, adults with children and adults without children. Utah can opt for Medicaid to cover all of these populations up to 133% of FPL. However, the Supreme Court's Obamacare decision makes that choice optional, not mandatory. As chart 3 indicates, some states have opted to expand Medicaid to cover these populations, while others have not. Still other states, including Utah, have yet to decide.

As the map below (assembled by the Washington Post) shows, 20 states plus the District of Columbia plan to use Medicaid to cover the expanded populations contemplated by Obamacare. Another four states are leaning towards expanding Medicare. By contrast, 15 states have declared they will not expand Medicaid, with another 10 states leaning in that direction.

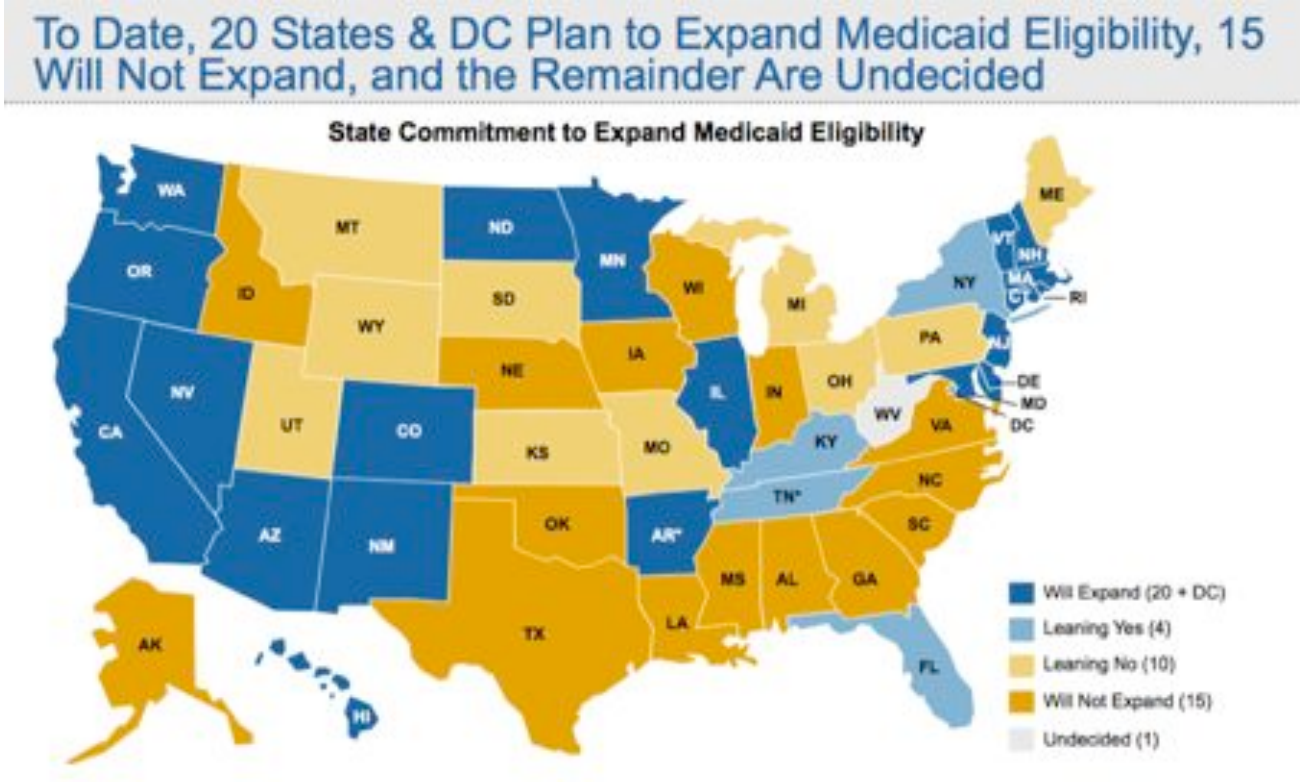
Admittedly, creating these maps involves a degree of subjectivity. Other observers read the positions of the states somewhat differently. However, the point is not to evaluate which predictions are most accurate; rather, the point is to note the diversity of choices that states are making.

As noted above, the decision about whether (or how far) to expand Medicaid coverage involves weighing competing values. However, states face powerful incentives against expanding eligibility to

Chart 3



Source: Utah Department of Health: Medicaid



Source: Washington Post

populations above 100% of FPL.

Under current regulations, the federal government covers about 70% of Utah's Medicaid expenses; Utah pays the other 30%. If Utah expands Medicaid coverage, by 2020 Utah will cover 10% of the cost of the expanded coverage. However, Chart 3 shows that if Utah chooses not to expand Medicaid coverage beyond 100% of FPL, the federal government will cover 100% of tax subsidies provided to eligible populations. In other words, by not expanding Medicaid beyond 100% of FPL Utah can get almost all the benefits of expansion at no additional budgetary expense.

There is an important caveat, illustrated in the last line of Chart 3. Not expanding Medicaid beyond 100% of FPL could mean that adults without children up to 100% of FPL would have no Medicaid coverage. That same population would also not be eligible for Obamacare's federal tax subsidies.

None of these decisions is easy. In reality, this article is merely a thumbnail sketch of the competing issues policy makers will weigh in deciding whether (or how far) to expand Medicaid. However, your Taxpayers Association will represent your interests, and make sure Utah keeps its fiscal house in order.

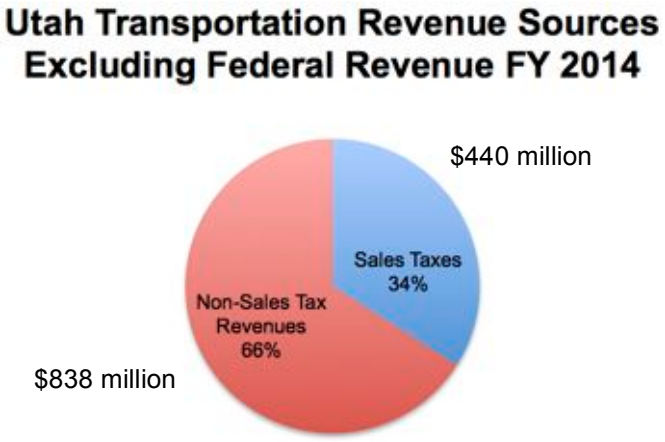
Tackling Transportation Funding by Cutting Utah's Income Tax

Your Taxpayers Association has devoted numerous pages of this newsletter over the years to different options to fund Utah's transportation infrastructure. Transportation infrastructure is critical to a growing economy and we want Utah's economy to grow. And so does the Legislature.

Since 1995, the Legislature has made many attempts to improve Utah's roads. A major catalyst for these actions was the 2002 Winter Olympic games. As part of the States agreement to partner in the games, massive road and rail projects needed to be completed. To cope with the increased demand for transportation money, the Legislature began using sales tax revenue to pay for transportation infrastructure. There are now 7 different earmarks for sales taxes devoted to transportation infrastructure.

The Centennial Highway Program (CHP), created in 1995, allowed the use of general funds and increased gas taxes to fund 41 projects throughout the State. Incidentally, 1997 was the last time that the Utah Legislature increased the gas tax (with the support of your Taxpayers Association). In 2005, the Legislature earmarked 8.3% of sales tax revenues to be deposited into the newly created Transportation Investment Fund (TIF). In 2008, the Legislature created the Critical Highway Needs Fund (CHN) that received General Fund earmarked sales taxes. The last attempt to earmark sales tax revenue for transportation projects came in 2011 when SB 229 earmarked 30% of the growth in sales taxes to transportation projects.

As a result of these legislative actions, sales tax earmarks for transportation are budgeted to be $440.8 million in FY 2014. This represents 34% of Utah's transportation budget (excluding federal revenues). Total state spending for transportation is just under $1.3 billion ($1,481,747,300 with federal money). The accompanying chart illustrates the large portion of revenues from sales taxes as compared to other sources of revenue, including registration fees, the General Fund, dedicated credits and more. Transportation



expenditures include two distinct things: building and maintenance. It is one thing to find one-time money to build a road, it's another to have a steady revenue source to maintain those roads. Currently, there is not a steady revenue source for this maintenance as taxpayers witnessed last year in Highland, where property taxes were increased permanently because the city had reached its bonding capacity for other projects such as a new city hall. UDOT presented to the 2012 Taxes Now conference last year about the importance of maintaining roads early and often to increase the lifespan of a road. In his presentation, UDOT Director Carlos Braceras (then Deputy Director) explained that preservation work on roads should begin 7-10 years after they were initially completed. By beginning the preservation work early, minor investments can prolong the lifespan of a road. The inability of cities such as Highland to dedicate money towards minor road repairs demonstrates the need for users to pay for the cost of those repairs. The second issue is that sales tax revenues are not stable.

As your Taxpayers Association wrote in the August 2012 issue of The Utah Taxpayer, sound tax and fiscal policies rely on user fees for government services when they are available. When user fees are not possible, a tax should be as intimately related to the service provided as possible. That is why six years ago, your Association advocated for a $0.25 per gallon increase in the gas tax with a simultaneous cut in the state income tax. Since that time, your Association explored other methods to more directly tie road funding to the users using them, such as charging by vehicle miles traveled.

One of the most direct methods is charging users by Vehicle Miles Traveled (VMT). Oregon has implemented a pilot project using GPS trackers to count the number of miles driven on public roads and charged participants $0.12 cents per mile. The controversy surrounds the GPS unit being attached to the vehicle and the vehicles movement tracked. The thought of "Big Brother" knowing a drivers daily routine understandably causes some to proceed with caution. But, in a report by the Council of State Governments, it was determined that with Oregon's VMT program "no specific vehicle point location or trip data could be stored or transmitted, all on-vehicle device communication had to be short range, and the only data centrally stored were vehicle identification, zone mileage totals for each vehicle and the amount of fuel purchased." But, to further alleviate this concern, Oregon has offered additional plans to participate in a VMT program. Currently participants can upload a credit or debit card or pay by check each month and can use a device such as a GPS or log their travel manually. However, this proactive payment method by the taxpayers would require additional auditing, requiring the expansion of government to ensure compliance.

Currently, Utah uses a method known as congestion pricing. Along the Wasatch front, I-15 has High Occupancy Toll lanes (HOT lanes). These HOT lanes allow vehicles with 2 or more passengers to travel to use them, often saving time and alleviating congestion in the other lanes. Utah drivers are also able to purchase an Express Pass through UDOT that is placed on a vehicles windshield and funds loaded in an account. When a driver uses the device in the HOT lane, the credits are deducted from the users account. Currently there are 13,765 active Express Passes in Utah.

Another method that your Taxpayers Association has explored is converting the gas tax to a per dollar tax rather than per gallon tax. This would ensure that as prices go up, so does the revenue generated. But this would be volatile, and as we concluded in the August 2012 Utah Taxpayer, there's a good reason to worry about tying the state's transportation system to a funding mechanism that fluctuates wildly.

And therein lies the problem. Our current system relies on $440.8 million in sales taxes that have proven to be volatile. The current system does not address the challenges of the world we live in today. Vehicles get better gas mileage than they ever have, and federal law requires that by 2025 vehicles will be required to get 54.5 MPG. With the current system, transportation funding will not keep up with infrastructure needs. Even now, vehicle miles traveled is on the decline. The Washington Post has reported that since 2005, vehicle miles traveled has dropped 8.75%. And the younger generation (future drivers and taxpayers) has seen their average yearly number of miles driven drop by 23% between 2001 and 2009. This means that the current method of paying for transportation costs is not sustainable.

The first part of our solution requires that the $440.8 million collected in sales tax revenues being spent on transportation projects be transferred to higher education. Currently higher education receives both sales tax revenues and income taxes. By shifting the $440.8 million to higher education, the Legislature can then cut income taxes by 14%, lowering the income tax rate from 5% to 4.57%. Reducing the income tax will encourage businesses to locate in Utah much more than lowering the sales tax rate will. Some will say that Utah shouldn't lower the income tax because the State spends less per student on education than other states, but it's important to note that lowering the income tax will increase Utah's competiveness and encourage economic growth. The proof can be seen in Texas, where no income tax has resulted in swarms of businesses moving there.

To replace the money shifted from transportation to higher education, the gas tax would need to be increased. This would mean that the state portion of the gas tax would be increased by $0.424 to $0.669 cents per gallon. Under this proposal, Utah would impose the highest state level gas tax in the country, passing New York that currently imposes a $0.506 cent per gallon tax. Including federal taxes, Utahns would pay $0.853 cents per gallon at the pump, up from the $0.429 currently paid.

Shifting sales taxes to higher education, cutting the income tax, and raising the gas tax will be revenue neutral, while ensuring that transportation funding is more efficient.

The transparency of gas taxes expose the real cost of providing transportation infrastructure and maintenance. Transparency in funding promotes responsible use of our roads. Have you ever wondered why toll roads are so well maintained and lack potholes? It's because the user pays the full cost of their time on that road, resulting in less wear and tear and better maintenance. If we make Utah's transportation funding more transparent, it will be more sustainable and enhance Utah's economy for years to come.

Market Place Fairness

By Senator Wayne Harper

Senator Wayne Harper

The Marketplace Fairness Act currently before Congress will remove a government endorsed tax situation that puts local retail businesses at a competitive disadvantage. Utah has been waiting and working for over 20 years for Congress to respond to the directive issued by the Supreme Court to address this tax inequity problem and return control of sales tax policy to each state.

It is estimated that Utah is unable to collect up to $180 million dollars each year in sales tax revenue. Why? Under the Supreme Court's Commerce Clause decisions, states may require in-state retailers to collect sales tax from their customers, but states may not require out-of-state retailers to do the same. Instead, states impose a "use tax" on purchases from out of state retailers. Use tax is identical to the sales tax, except that there's no meaningful way to collect it. Thankfully, no one source tracks what each consumer has purchased and where they've purchased it. Therefore, there is no way for a state to know how much a taxpayer owes.

In theory, on purchases made over the internet, individuals should – on their own and without being prompted to do so – pay state sales tax on those items when they submit their state taxes each year. The truth of the matter is though, that few people even realize that they haven't paid all of the necessary taxes when they make purchases online.

With no solution to this 'use tax problem', the explosive growth of e-commerce will create pressure to increase other taxes. As more people use e-commerce to purchase from out of state retailers goods that they have historically purchased from brick and mortar stores, and therefore owe use tax instead of paying sales tax, states lose tax revenue which creates pressure to raise other taxes. By making use tax as easy to collect as sales tax, the MFA will allow state and local governments to lower sales tax rates.

Paul Ryan recently asserted at a town hall meeting in Janesville, Wisconsin that: "It's only fair that the local brick-and-mortar retailer be treated the same as the big-box online sales company out of state. . . .[t]he key is this can't be a slippery slope used to tax other things. This can't be a slippery slope to do other things, to make sure that we're just having fairness for retailers in purchasing online sales."

Paul Ryan has taken his position, and I wholeheartedly agree with him. Utah is passionate about our support for all businesses and business owners. With the Marketplace Fairness Act in place, local governments will be encouraged to lower the sales tax rate by expanding the sales tax base.

The National Governor's Association recently released the following statement, which offers great perspective on both the principle and merits of the bill: "The Marketplace Fairness Act is common-sense legislation that is simply about the collection of sales and use taxes already owed. . . .[T]he legislation has no effect on federal revenues or the federal budget, as confirmed by the Congressional Budget Office yesterday. . . .This. . .legislation. . .upholds the principles of federalism and levels the playing field between Main Street and e-street." Congress needs to approve Marketplace Fairness. If they don't, the tax system will continue to discriminate between market competitors, and pressure to raise state income taxes will continue to mount. In a time of mounting global competition we simply cannot afford to raise taxes - and we should never let the tax code systematically discriminate against market competitors.

Let's work together to show our Congressional delegation in D.C. how important Marketplace Fairness is to Utah.

iProvo: A Requiem

The final verse of iProvo remains to be written, but the likely ending is probably within earshot. In perhaps the most "epic" announcement Provo has heard recently, Provo Mayor John Curtis announced that Google Fiber is buying the troubled iProvo network. The terms of the deal allow Provo to repurchase the network for the same sales price should Google Fiber fail to perform, but that possibility seems remote. Provo's ill-fated attempt at building and running its own network is coming to a close.

The Terms of the Google Deal

The terms of the deal are surprising, especially considering the tens of millions of dollars Provo taxpayers have paid to build and operate the network. The purchase network's purchase price is $1.00. Google Fiber will also pay $1.00 per year to rent iProvo's network operations center (NOC), and have an option to buy the NOC within seven years. While those amounts are remarkably small, Provo will receive substantial consideration in other forms.

First, Google Fiber will upgrade the network to make it capable of handling gigabit speeds. That means replacing millions of dollars in electronics in network huts, residential homes, and the NOC. Without Google Fiber's investment in the network, Provo would have to spend about $18 - $20 million to upgrade these electronics, and then similar upgrades every few years in perpetuity.

Second, Google Fiber will finish connecting all 35,000 residents to the network. Since iProvo started, about 15,000 homes and businesses have connected to the network. Google Fiber will connect the approximately 20,000 remaining homes to their network for a one-time fee of $30 per home, paid by the resident.

Third, Google Fiber will further provide free internet service (at roughly the nation's average broadband speed, 5 megs per second) to all customers on their network. (For a monthly fee of approximately $70 per month, residents can increase their speed to 1 gigabit per second, which is about 200 times faster than Google Fiber's free service.)

One important term of the Google Fiber deal is that Google Fiber will not provide service to Provo's businesses. Google Fiber may come out with a Small Business Product at some

point, but that will focus on home-based businesses. It remains unclear where iProvo's business customers will obtain service.

What did Provo Taxpayers Pay for iProvo?

Provo taxpayers and municipal power users have bonded for $39.5 million, and provided another $19.3 million in operating subsidies since iProvo's inception.

As Table 1 indicates, Provo provided operating subsidies to the iProvo network going back even before the city sold the iProvo bonds. In 2001, Provo purchased what would become the backbone of the iProvo network for $1.3 million. Between 2001 and 2004 (i.e., before the iProvo bonds were approved and sold) Provo spent another $8.4 million building and testing that original fiber backbone.

In 2004, Provo sold $39.5 million in bonds to build the iProvo network throughout the city. By 2007, it was apparent that the bonds weren't sufficient to complete the network, so Provo's City Council transferred $1.5 million from the City's Capital Improvement Fund to iProvo. Provo made additional interfund loans totaling $2.9 million to iProvo, which were written off when Mayor Lewis Bilings sold iProvo to Broadweave.

Table 1: Amounts Provo taxpayers paid to build and operate iProvo

Year	Amount	Use
2001	$1,299,000	Purchase of fiber backbone
2001-2004	$8,434,000	Preperation for iProvo network
2004	$39,500,000	Build iProvo network
2007	$1,200,000	General CIP operating transfer
2008	$2,934,000	Write off of loans, per the Broadweave sale
2011	$5,357,316	Write off of loans from Energy Fund
Total	$58,724,316	

Source: Provo City Finance Department

The next subsidy provided by the Provo taxpayers to iProvo came in 2011, when the Provo City Council acknowledged that iProvo would never repay the additional $5.4 million in loans the City had provided iProvo since its beginning. All told, these subsidies total $19.2 million in taxpayer subsidies beyond the $39.5 million in bonds Provo taxpayers are paying for.

Was the iProvo Experiment Worth It?

Accounting for these subsidies is critical, because they help us answer perhaps the fundamental question coming out of the iProvo-Google Fiber deal: does Google Fiber's purchase justify the costs taxpayers have borne and will continue to bear?

Supporters of municipal telecom systems argue that Google Fiber came to Provo because the city built iProvo, and Google Fiber spokespersons did indicate that the city's early commitment to a fiber optic network throughout the city did factor into Google Fiber's calculus.

In explaining their decision to buy the Provo network, Google Fiber made two other points that seem relevant. First, they came to Provo because residents and businesses in the Provo area develop the second most technology patents per capita in the country. Second, Google Fiber is developing fiber networks because they expect the same dramatic technology changes to accompany this kind of an upgrade that accompanied the change from dial up to broadband speeds.

Analysts will speculate for years on what those pronouncements mean, and whether Provo taxpayers got a good deal. However, it seems notable that "Silicon Slopes," as Utah's technology industry is coming to be known, is a collection of investors and entrepreneurs pursuing their dreams at their own risk. They aren't asking taxpayers to backstop them. They see opportunities, and they go after them, just like the investors and entrepreneurs that created Silicon Valley.

Second, remember that Google Fiber built their own gigabit networks in Kansas City and Austin, Texas. Taxpayers in Google Fiber's other cities didn't have to suffer the losses Provo's taxpayers have for the past decade, yet they are receiving substantially equal benefits.

As the above assessment shows, Provo taxpayers have taken it on the chin with iProvo. They've spent tens of millions of dollars to receive what private providers are building. The $1 purchase price absolutely sticks in the craw. Taxpayers are rightly frustrated that they will continue to pay off the iProvo bonds for another dozen years.

However, Provo had the FOR SALE sign out for months. No one else made a better offer, even though every other potential buyer had the opportunity to do so. Perhaps most importantly, selling iProvo eliminates future subsidies like those described above. The sale also removes the ongoing need for Provo to upgrade the network's electronics every five to seven years. That forgone cost alone saves Provo taxpayers between $15 million and $20 million in just the first upgrade.

So it looks like iProvo has gone the way of all the earth. Provo taxpayers will continue paying the telecom utility fee until the bonds are retired. But for all intents and purposes, Provo has finally gotten out of the telecom business.

2013 Utah Taxes Now Conference

Tentative AGENDA

35th Annual Conference on Taxes & Spending

Keeping Utah # 1. Yet Again.

Sponsored by: Utah Taxpayers Association, Chevron and Workers Compensation Fund

Thursday May 23, 2013 – 8:00 a.m. to 2:00 p.m.
Little America Hotel, 500 South Main Street, Salt Lake City, Utah
Moderated by Association President Howard Stephenson and Association Vice-President Royce Van Tassell

7:30 **Registration**

8:00 **Welcome**
Jim Hewlett, Chairman, Utah Taxpayers Association

8:05 **Welcome from Conference Sponsors**
Greg Hardy, Chevron
Ray Pickup, Workers Compensation Fund

8:10 **When are sales tax exemptions or income tax credits a good idea, and when are they just welfare? (SB 31, SB 33, SB 84, SB 171, HB 274)**
Fred Lampropoulos, Merit Medical
Senator Curt Bramble
Rep. Brian King

8:25 **Updating Utah's sales and income taxes for a 21st century economy**

How Utah avoided its own "Gillette" disaster (SB 247)
Steve Young, Holland & Hart
Commissioner Bruce Johnson

Applying sales taxes in a digital world (SB124, Idaho's HB 243)
Steve Young, Holland & Hart
Commissioner Bruce Johnson

What should states and Congress do to create sales tax equity for remote and brick and mortar retailers? (HJR 4, SB 226, SB 58, HB 300)
Representative Steve Eliason
Dave Davis, Utah Retail Merchants Association
Mark Griffin, Overstock.com

9:00 **How should Utah correct the billion dollar RDA property tax problem? (SB 211)**
Randy Sant, Utah RDA Association
John Dougall, Utah State Auditor
Darrin Casper, Salt Lake County

9:15 **Solving gross inequities in local education's property taxes (HB 49, SB 81)**
Rep. Steve Handy
Senator Aaron Osmond

9:25 **How Utah's STEM action center will prepare Utah's children to compete in the 21st century economy (HB 139, SCR 5, SB 169)**
Stan Lockhart, IMFlash
Sophia DiCaro, GOED

9:45 **Should Utah taxpayers subsidize a 1000-room convention center hotel? (SB 267)**
Mayor Ben McAdams
Senator John Valentine
Clint Ensign, Grand and Little America Hotels

10:00 **Refreshment Break**

10:15 **Taking stock of the Google-iProvo deal**
Mayor John Curtis
A representative from Google Fiber

10:25 **Taking sales tax out of road funding, lowering the income tax, and making Utah more competitive economically**
Senator Stuart Adams
Ken Bullock, Utah League of Cities and Towns
Carlos Braceras, UDOT

10:35 **Taxes or user fees: How will Utah pay for water development? (SB 154, SB 276)**
Sen. Scott Jenkins
Sen. John Valentine

10:50 **Should Utah expand Medicaid funding and coverage?**
Rep. Jake Anderegg (HB 391)
Judi Hillman, Utah Health Policy Project
David Patton, Utah Department of Health

11:00 **Are tax hikes or tax cuts in Utah's future?**
Rep. Becky Lockhart
Senator Wayne Niederhauser

11:15 **Unveiling of ALEC's 6th annual "Rich States, Poor States" report**
Jonathan Williams, American Legislative Exchange Council Governor Gary Herbert
Senator Wayne Niederhauser
Rep. Becky Lockhart

11:30 **Governor Gary R. Herbert**

11:50 **Legislative Round Up (SB 158, HB 94, SB 34, SB 103, HB 246, HB 54, SB 66, SB 55)**
Chase Everton, Research Analyst, Utah Taxpayers Association

12:00 **Luncheon: Grand Ballroom/Speaker/Awards**
Lifetime Service Award
Taxpayer Advocate of the Year Award

35th Annual "Utah Taxes Now" Conference

Your Taxpayers Association will be hosting its annual "Utah Taxes Now" conference on **Thursday, May 23, 2013** at the Little America Hotel.
To register call Heidi at (801) 972-8814 or email heidi@utahtaxpayers.org.