Utah Ranks 3rd Highest in the Nation for Education System, and Best for Fiscal Stability

As we reported to you in the previous edition of The Utah Taxpayer, calculations done by the Utah Taxpayers Association found that Utah was right in the middle of the pack nationwide regarding teacher pay at $55,746, and highest in the region, following Wyoming.

This month, more good news for Utah’s education system came by way of US News and World Report. The organization released a study that ranked states’ overall economic and government performance on categories including education, health care, fiscal stability, economic outlook, and infrastructure. Utah’s overall ranking in the study was 3rd best in the nation, and as part of that report, the state’s education system was ranked 3rd.

Utah’s education system not only ranked 3rd highest in the nation, but was also the only state ranking in the top 10 for education in the region. The closest neighboring competitor was Wyoming, which came in at 15th highest for education.

A few of the contributing factors to Utah’s high ranking was the increase in the graduation rate, performance on reading and math testing scores, and college preparedness, which again, was higher than Wyoming.

Utah’s graduation rate, which hovered just above 75% in 2011, climbed to 84.8% in just a four year period.

Next, Utah’s 8th graders ranked 9th highest in the nation for testing on reading, and 15th highest on math.

Moving beyond Utah’s pre-K through 12th grade system, Utah’s higher education system ranked 2nd best in the country, primarily due to the lower cost of our colleges and universities in comparison to the rest of the nation’s schools.

In fact, Utah ranked best in the nation for relatively low indebtedness after college, and 4th lowest in tuition and fee burden placed on higher education students.

States were ranked on performance in public education, pre-kindergarten education, and higher education. The rankings included a number of different measurements, including the percentage of children enrolled in preschool, and national testing of 8th graders in math and reading, as well as preparation for college and graduation rates.

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My Corner: Truth-in-Bonding Legislation is a Win for All Taxpayers, Preventing Unapproved Debt

While Howard Stephenson serves during the Legislative Session, Mr. Hesterman has authored this month’s My Corner.

In all taxation, taxpayers should be well informed on how much money is being taken from them and also how that money is being spent. This is a fundamental mission of your Taxpayers Association. We are constantly working with all levels of government in Utah to ensure that you receive notification and information that will keep you informed when a tax hike is being considered. This includes when a government entity, such as a city, county, or school district, seeks voter-approval of a general obligation bond.

In 2017, your Association led the charge to add greater transparency to bonding. We successfully passed SB 150, which required governments seeking a voter-approved bond to include the true cost of the bond on the ballot before any other figure could be placed on the ballot. No longer could games be played on the ballot about how much debt taxpayers were voting on. Taxpayers now are better informed of how much the bond will cost and how much their taxes may decrease if the bond is rejected.

This year we continued our quest to increased truth-in-bonding by advocating for legislation, Senate Bill 122. The measure ensures following the approval of a bond, the amount of debt approved by the voters cannot be exceeded by entities. We found that some governmental entities had been bonding for a greater amount than the taxpayers approved at the ballot box.

State Treasurer David Damschen, who supported our legislation to end this practice, explained what the governments were doing in a memo distributed to lawmakers:

“The total amount borrowed in a sale of bonds is cash proceeds. If all bonds are issued at “par,” then proceeds equal par.

“For a decade now in the wake of the Great Recession and with all-time low interest rates, many investors (primarily institutions) have expressed a preference for what are called ‘premium bonds.’ Such bonds pay a rate of interest (known as “coupon”) higher than that prevailing in the market. The high coupon gives investors a degree of protection against rising interest rates should they in future sell the bonds prior to maturity in the secondary market. In order to provide the issuer of premium bonds with a fair market borrowing rate, the investor pays an up-front cash premium in excess of par to bring the borrower’s cost in line with market rates.

“So if premium bonds are utilized, proceeds = par + premium. Any premium paid, then, is part of the aggregate borrowing, and most certainly has to be paid back via those higher coupon rates.”

Treasurer Damschen gave this example of how this process should work: Utah is currently looking to bond. The state needs a total proceeds of $385 million ($100 million for the prison & $285 million for transportation). To optimize the transaction and meet investor demand for “high coupons” on some maturities, the state anticipated receipt of premium totaling approximately $60 million based on current market dynamics. Damschen estimated the par to come in around $325 million. ($385 million proceeds minus $60 million premium = $325 million par).

SB 122 enforces the same type of discipline and accountability to voter-approved borrowings at the local level that Damschen is practicing at the state level. It also respects what the voters approved at the ballot box and does not put the taxpayers in a greater amount of debt than they approved.

This legislation, admittedly a “deep in the weeds” tax bill, will prevent situations like what once took place in Washington County from happening again. When the Washington County School District (WCSD) pursued a recent bond, a WCSD school board member explained to the Legislature that the district was able to obtain additional money than the voters approved and built additional school buildings. That practice removes the transparency that is supposed to be included when a bond is pursued. Government is supposed to present a plan to taxpayers and then fulfill that plan if the bond is approved. What WCSD did was go into greater debt than approved and also built more than the voters were informed of. That is not transparent. That is not
serving the taxpayer.

Our legislation to end this practice is moving forward and needs to pass. Government needs to respect the voice of the taxpayer and not exceed what the voters approved. Your Taxpayers Association will continue to fight for this legislation and ensure that taxpayers are protected from greater debt than they originally approve.

Utah Ranks 3rd Highest in the Nation for Education System, and Best for Fiscal Stability (continued)

Both higher education and public education system rankings were weighted equally at 50-50 in order to calculate the overall education ranking.

But looking more broadly than education, Utah continued to outperform other states, according to the report.

US News and World Report ranked Utah as the 2nd best economy in the nation, never ranking less than 6th highest in the three major categories (growth, employment, and business environment) they examined.

Utah ranked 4th best for employment, thanks to the change in employment rate (4th), and labor force participation (5th).

Utah’s business environment ranked 5th highest in the nation, in part due to the entrepreneurship. The report cited Utah having a 3.5% “birth rate” of business, a percentage found when compared to all businesses in the state. Utah’s growth also ranked in the top 10, primarily due to the growth in our GDP.

In addition, Utah ranked best in the nation for fiscal stability, when calculating both long-term and short-term stability.

The report found that Utah’s long-term fiscal stability falls out of the top 10, at 13th best, mostly due to Utah’s unfunded liabilities, specifically pension payments due to many state employees. While pension and state employee benefits reforms passed the Legislature in 2011 have helped reduce the unfunded liability, the report found this factor enough to drag Utah’s long-term fiscal stability down.

However, Utah’s credit rating score ranked first in the nation, which helped Utah’s long-term viability remain in the top 25.

The state’s short-term fiscal stability ranked 2nd highest, thanks to the constitutional requirement that Utah must balance its budget each year, and the state’s budget liquidity.

Unfortunately, it’s not all great news. The report found that Utah’s tax burden ranks below the national average, at 28th, with 8.4% of total taxes as a percent of state income. While the Utah Legislature and voters consider increasing taxes, factors like this should be taken into account.

The report also touched on issues varying from health care (10th overall), to infrastructure (8th), Utah should be very excited about the progress we’re making, but needs to take into consideration that we cannot rest in driving Utah to be the best only in economic forecast, but in overall quality of the state for years to come.

To view the entire report, click here.

Will the Utah Legislature Increase Your Taxes in 2018?

Utah’s lawmakers are grappling over a number tax questions as they wrap up their work for the 2018 Session. The Legislature has considered a number of tax bills that seek to cut the overall income tax rate for individuals and businesses, decrease the state’s corporate tax burden by implementing a single factor calculation for income taxes, increasing property taxes, increasing vehicle registration fees and allowing counties to raise the sales tax in the future. What will pass before they adjourn at midnight on Thursday remains to be seen. Here is rundown on what is being considered.

3rd Substitute Senate Bill 136 - Transportation Governance Amendments (Harper)
Funding Utah’s transportation infrastructure, including transit and roads, has been a major topic of the session. Sen. Wayne Harper, R-Taylorsville, has proposed legislation that will increase registration fees on vehicles to raise more than $80 million for the state. The money will be used to fund transit-related projects such as the expansion of bus service, light rail, bus-
rapid-transit (BRT) and others. It also creates a new local option sales tax of 0.25% that counties could impose starting in July of 2019.

The legislation also restructures UTA. The bill would replace the current 16 member, part-time, volunteer board with a three member, full-time, board. The board members would be nominated by the counties, appointed by the governor and confirmed by the Senate. The board would hire an executive director to oversee UTA and also create a nine-member Local Advisory Board which would advise the 3 board members on topics including the UTA budget, service plans and project development plans.

Your Taxpayers Association appreciates the need to fund ways to allow people move from one location to another in an efficient manner, however, we are concerned about turning over $80 million to UTA before its restructuring takes place. Taxpayers would be better served if UTA was allowed to get its new leadership in place and proposals are put together first before additional funding is given to it and other related transit agencies across the state.

**1st Substitute House Bill 355 - Amendments to Tax Law (McCay)**

Income taxes have been a main topic during the legislative session as legislators have worked to determine how Utah should best adjust its own tax code to react to federal tax reform passed at the end of 2017. Rep. Dan McCay, R-Riverton, has legislation to lower Utah’s individual and corporate income tax rates from 5% to 4.95% to offset the additional revenue Utah would have received from federal tax reform if no state level changes had been made.

Because federal reform made tweaks to a number of exemptions and credits that adjusted the federal adjusted income figure for many Utahns, the state was set to receive $80 million in new revenue if no changes were made this session. McCay’s rate change decreases the state’s new revenue by $50 million. It is expected that the other $30 million will be used for additional changes to benefit taxpayers in the state of Utah.

HB 355 also incorporates an issue we have written about often on the pages of this publication. The bill also moves many more industries in Utah to the single sales factor calculation. This means the companies in these industries will be able to calculate their corporate income tax by using sales within the state of Utah as the only factor to determine their state income.

The legislation is designed to entice businesses to expand in Utah. The bill is structured such that if a company has a significant number of employees and a significant amount of capital investment in the state, then it will benefit by only having its sales within state be used to calculate its state income tax bill.

HB 355 is a part of the Taxpayers Association’s Utah 2.0 campaign, which is designed to modernize Utah’s tax code. This will align Utah with more than 20 states in how they tax business income. We support this change to lower the income tax rate for Utah’s individuals and businesses. An income tax is a tax on productivity and success. Any way to decrease the government’s burden on Utah’s individuals and businesses in this way is a positive move for our economy.

**Senate Bill 233 - Sales and Use Tax Amendments (Stephenson)**

Another vital piece of the Association’s Utah 2.0 initiative is the removal of the sales taxes on business inputs for certain industries. SB 233 does just that.

SB 233 brings greater capital and payroll investment and economic growth to the state through the elimination of sales taxes on business inputs for manufacturers and mining operations, and other vital industries.

In addition, the bill would create a uniform tax code between industry competitors. Taxing business inputs discourages investment by increasing the cost of investment. Investment in production is a key driver of economic growth, and government should be encouraging business investment, not discouraging it.

While the Legislature, in different years has passed this legislation in various ways, it has not been fully passed due to the unwillingness to return state revenue to taxpayers. This bill negates that issue, by using the revenue from remote sales taxes if the Supreme Court were to take favorable action on a case pending to allow states to collect the remote sales tax automatically.

We’re anxious to see the Legislature adopt this policy and expect progress to be made this year.

**1st Substitute House Bill 293 - Education Funding Amendments (Last)**

House Bill 293, as well as Senate Bill 145, seek to fix this inequity among Utah students. House Bill 293 does so through a property tax increase, by freezing the statewide property tax levy for education for five years. Senate Bill 145 looks to equalize funding for Utah students by using the growth the state sees in the income tax in the future.
House Bill 293, sponsored by Rep. Brad Last, R-St. George, would increase property taxes on a home valued at $250,000 by $14 according to the Legislature’s fiscal analyst. Utah lawmakers last increased the state property tax levy for education back in 2015 by $75 million. Revenue from this legislation for the state is expected to reach $125 million by 2022.

Senate Bill 145 would simply take revenue from the annual growth in the income taxes collected and put it towards equalizing funding. It would require no tax increase but force some school districts to go without some new funding in the future because the money would be used for this equalization effort.

As we have reviewed these two items of legislation, your Taxpayers Association believes equalization can be achieved without a tax increase. We fully support Senate Bill 145, sponsored by Sen. Lincoln Fillmore, R-South Jordan.

Overall tax changes are expected to be a net cut to state revenues by $20 million when the legislature adjourns. Despite some potential increases through registration fees or property tax increases, an overall cut by $20 million is a win for taxpayers. Your Taxpayers Association appreciates the work of Utah Legislature to move this overall tax cut forward.

**1 Sub HB 307 - Property Tax Changes (Hawkes)**

This bill has been the culmination of two years of work with a member of the Association. The bill creates an additional review before property tax notices are sent to ensure that the increase wasn’t the result of some error. These days, the majority of counties use automatic calculations to generally determine a property assessment based on market variables, as well as other factors.

Therefore, if a valuation is increased by the median property value change plus 15%, and $10,000, then an automatic review is triggered for the county assessor.

Additionally, HB 307 limits a county from increasing a successfully appealed property assessment in the prior tax year above fair market value plus the median increase in property values for the county.

**HB 375 - Personal Property Tax Revisions (McCay)**

Your Taxpayers Association has heard from many members that the tax on tangible business personal property is one of the most burdensome tax compliance issues of owning a business.

HB 375 looks to exempt all tangible personal property if the business has less than $250,000 in total business personal property, and exempts items that have an acquisition cost of less than $2,500.
Retail sales are one of the more transparent ways to collect tax revenue. They are generally easy to understand and consumers see their tax printed directly on their receipts. However, this tax is so ubiquitous that it could also be argued that it could be called the forgotten tax.

Since it is a tax that is part of our everyday lives, it can easily be ignored. It is a tax that everyone, from our kids to our grandparents, pays through some type of purchase. It is also the tax that funds the general fund for the state and local governments, which pays for everything from roads to public safety.

Sales tax rates vary depending on where you make your purchase. The current statewide sales tax rate in Utah is 4.7%, but that is only the beginning factor of the tax on your purchase. Cities statewide charge a 1% sales tax and counties impose a .25% sales tax.

Additional items that increase the tax rate include taxes that voters approved for transit projects or for recreational facilities such as parks or arts programs.

When it comes to food, Utah does tax this differently than other items. If the item is known as grocery food or unprepared food, it is taxed by the
state at a discounted rate of 1.75%, while the cities impose a 1% rate on food and the counties adding another .25%. Added together, the rate on unprepared food is a total of 3%. For prepared food, the general sales tax rate is imposed rather than the lower unprepared food rate.

So how does Utah’s sales tax rate compare to other states? According to the Washington D.C.-based Tax Foundation, Utah has the 29th highest sales tax rate in the nation. The Foundation uses the overall statewide rate and averages the locally imposed rates to determine that Utah’s average sales tax rate is 6.77%. When compared to neighboring states Utah has a lower combined state and local sales tax rate than Colorado (7.52%), New Mexico (7.66%), Arizona (8.33%) and Nevada (8.14%), but a higher rate than Wyoming (5.46%) and Idaho (6.03%).

The state with the highest combined state and local sales tax rate is Louisiana which has a 10.02% tax rate. Five states do not have a statewide sales tax. They are: Oregon, Montana, New Hampshire, Alaska and Delaware.

The sales and use tax rate in Utah has been an item of discussion during the 2018 Legislative Session. Lawmakers have examined different options of how the tax could be updated or refined. Some discussions have surrounded around eliminating the state rate on unprepared food or by adding a tax on certain services.

As the Tax Foundation notes in their latest sales tax report, tax experts generally recommend that the sales tax base be kept broad based so to keep the rate low. Your Taxpayers Association continually works to educate policy makers that this broad base and low rate concept is essential to maintaining a healthy tax system. We continue to advocate for sales taxes to apply to all final retail sales of goods and services but not intermediate business-to-business transactions in the production chain.

You can read the Tax Foundation’s full report on sales taxes [here](#).

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**Association Accomplishments During February:**

- Testified on behalf of single sales factor for Utah businesses at the House Revenue and Taxation Committee
- Lobbied on behalf of all Utah taxpayers to lower the individual income tax rate
- Defeated at $80 million tax increase on hotel and rental cars
- Published an opinion editorial in the Daily Herald opposing expansion of UTOPIA
- Worked on legislation to increase transparency on special service districts across the state
- Published a report on teacher salaries across the nation
- Hosted Small Business Day on the Hill

**In the News**

- News from the State Legislative Session
  - **SB136: Utah Transportation and UTA**: Tribune
  - **SB136: Raising Transportation Tax/Restructuring UTA**: Tribute
  - **State Sales Tax on Food Could Vanish**: Tribune
- Small Business Day on the Hill
  - **Small Business Owners Visit with Lawmakers on the Hill**: Deseret News
- **UTOPIA OP-ED**
  - **Orem City Council Should Walk Away from any UTOPIA Deal**: Daily Herald

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