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The Utah Taxpayer

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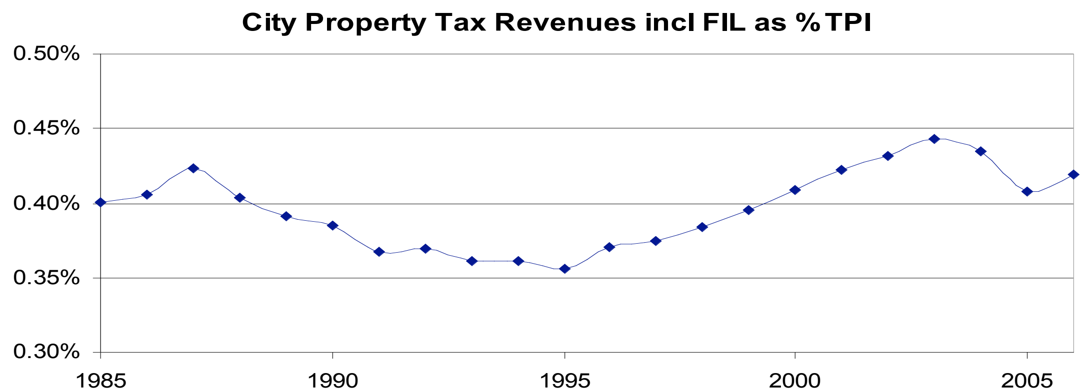
December 2007 Articles

Does Truth-in-Taxation unnecessarily restrict property tax revenue growth?

Over the years, opponents of Truth-in-Taxation (TNT) have argued that TNT does not allow property tax revenues to grow fast enough, although they won't be making that argument too loudly this year due to revenue increases of 10.4%. TNT opponents argue that property tax revenues as a percent of total personal income have decreased since TNT's enactment in 1986. However, most or all of this decrease is attributable to property tax reductions unrelated to TNT. During the 1990s, the Legislature reduced the statewide basic levy for education twice, and also allowed counties to impose a sales tax in return for reducing property taxes.

Analyzing city property tax revenues as a percent of personal income is a reliable method for determining the impact of TNT on property tax revenues since the Legislature has not enacted any bills in recent years that have impacted city property tax collections. As the following graph shows, city property tax revenues as a percent of total personal income have been very stable since 1985, fluctuating between 0.36% and 0.44% of personal income.



Calculations by Utah Taxpayers Association based on data from the Utah State Tax Commission and the Bureau of Economic Analysis.

The following table shows total statewide property tax revenue growth over the past five, ten, and twenty years, as well as two typical benchmarks for growth: personal income and combined population growth and inflation. Property tax revenue growth exceeded combined inflation and population growth for each time period and has matched total personal income growth over the past five years and past ten years.

Annualized Property Tax Growth

	1986 to 2006	1996 to 2006	2001 to 2006
Personal Income	6.72%	6.51%	6.05%
Inflation/population	5.45%	5.10%	5.24%
Property: real and personal	5.53%	6.59%	5.95%
Property: total incl FIL	N/A	6.78%	5.81%

Calculations by Utah Taxpayers Association based on data from Tax Commission, GOPB, Bureau of Labor Statistics

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Effective Tax Rates and City Size

Effective tax rates correlate strongly with city size. Larger cities generally have higher effective tax rates than smaller cities. The following chart shows the effective tax rates for groups of cities based on population.

City Population	Effective Tax Rate
1st largest to 10th largest	0.002621
11th largest to 30th largest	0.001688
31st largest to 50th largest	0.001517
51st largest to 100th largest (incl Park City)	0.001512
51st largest to 100th largest (excl Park City)	0.001440
Remaining	0.001436
All cities	0.002037

Calculations by Utah Taxpayers Association based on Tax Commission data

Property Tax Revenues, 1920 to 2007

The following chart shows property tax collections by entity type, including vehicle fee-in-lieu, from 1920 to 2007.

Larger cities generally have higher effective tax rates than smaller cities.,”

Year	Schools	%	Cities & Towns	%	County	%	Special Districts	%	Total Charged
1985	$ 362,814,778	55%	$ 79,243,990	12%	$ 151,260,123	23%	$ 67,008,363	10%	$ 660,327,254
1986	$ 387,668,225	55%	$ 83,761,724	11%	$ 156,463,186	22%	$ 74,064,275	11%	$ 701,957,410
1987	$ 385,378,743	53%	$ 90,417,317	12%	$ 169,904,027	23%	$ 78,662,243	11%	$ 724,363,330
1988	$ 391,447,028	53%	$ 89,902,876	12%	$ 174,710,777	24%	$ 79,909,064	11%	$ 735,969,745
1989	$ 406,329,955	53%	$ 93,511,416	12%	$ 181,230,771	24%	$ 80,334,468	11%	$ 761,416,610
1990	$ 425,102,610	53%	$ 99,376,720	13%	$ 187,341,394	24%	$ 83,319,725	10%	$ 795,140,449
1991	$ 457,147,357	54%	$ 101,382,230	12%	$ 194,002,458	23%	$ 86,642,157	10%	$ 839,174,202
1992	$ 489,630,534	55%	$ 109,212,585	12%	$ 210,435,636	23%	$ 90,488,893	10%	$ 899,767,648
1993	$ 536,408,733	55%	$ 114,743,440	12%	$ 220,591,305	23%	$ 95,813,420	10%	$ 967,556,898
1994	$ 580,527,609	55%	$ 124,223,485	12%	$ 238,800,668	23%	$ 103,691,681	10%	$ 1,047,243,444
1995	$ 535,038,944	52%	$ 132,600,391	14%	$ 251,973,582	24%	$ 108,059,782	11%	$ 1,027,672,699
1996	$ 543,347,388	50%	$ 149,435,036	14%	$ 276,967,611	26%	$ 117,572,882	11%	$ 1,087,322,918
1997	$ 608,294,448	50%	$ 163,617,491	14%	$ 304,456,178	25%	$ 130,097,608	11%	$ 1,206,465,724
1998	$ 645,294,698	53%	$ 180,536,170	15%	$ 258,839,528	21%	$ 136,791,531	11%	$ 1,221,461,927
1999	$ 722,654,771	53%	$ 195,203,189	14%	$ 288,193,173	21%	$ 145,728,353	11%	$ 1,351,779,486
2000	$ 778,355,432	54%	$ 219,059,017	15%	$ 287,057,160	20%	$ 150,637,125	10%	$ 1,435,108,734
2001	$ 824,255,655	53%	$ 239,209,140	16%	$ 305,565,556	20%	$ 172,898,251	11%	$ 1,541,928,601
2002	$ 866,313,867	54%	$ 251,146,857	16%	$ 311,985,061	19%	$ 179,436,114	11%	$ 1,608,884,899
2003	$ 918,524,989	54%	$ 263,157,306	16%	$ 322,528,469	19%	$ 185,238,187	11%	$ 1,686,338,334
2004	$ 986,025,830	55%	$ 276,834,001	15%	$ 338,194,789	19%	$ 195,299,412	11%	$ 1,796,354,032
2005	$ 1,036,436,483	55%	$ 286,204,322	15%	$ 355,078,225	19%	$ 211,016,057	11%	$ 1,888,735,087
2006	$ 1,128,330,358	55%	$ 318,166,382	15%	$ 375,745,488	18%	$ 236,084,510	11%	$ 2,058,326,738
2007	$ 1,277,655,810	55%	$ 332,685,876	15%	$ 406,622,279	18%	$ 255,548,452	11%	$ 2,272,512,417

Calculations by Utah Taxpayers Association based on Tax Commission data

Legislative Fiscal Analyst releases first annual Government Assistance Expenditure Report

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Last year, Rep. Mike Morley (R-Spanish Fork) sponsored HB89, which requires the Legislative Fiscal Analyst to issue an annual report on state-level expenditures targeted for low-income households. Prior to passage of HB89, determining how much the state spends on low-income households was difficult since these expenditures are scattered through so many different departments and agencies. Rep. Morley sponsored the bill because taxpayers and policy makers deserve to know how much is being spent on programs for low-income households. The annual report will allow legislators and taxpayers to monitor the growth in these programs.

The following chart summarizes revenues' sources and expenditures.

Department	General Fund	Education Fund	Federal Funds	Other	Total	% of Total
Health	336,758,900	-	974,690,100	175,285,800	1,484,764,500	65%
Human Services	71,364,889	-	154,907,801	-	226,272,690	10%
Courts	107,760	-	-	-	107,760	0%
Workforce Services/USOR	73,874,200	18,022,800	343,787,500	352,800	436,037,300	19%
Public Education	-	12,930,162	101,623,600	-	114,553,762	5%
Higher Education	1,889,700	112,100	-	34,500	2,036,300	0%
Comm/Econ Development	2,834,600	-	25,926,100	2,201,800	30,962,500	1%
Total	486,830,049	31,065,062	1,600,935,101	177,874,900	2,294,734,812	100%
Percent of total	21%	1%	70%	8%	100%	

Source: Legislative Fiscal Analyst

Too many state and local leaders look at federal money as "free" money, and argue that if Utah's state and local governments don't spend the money, other states will.

While some of these exemptions negatively distort economic decision making or do not promote economic growth as well as an overall rate reduction would, the discretion of taxpayers to spend dollars due to tax exemptions clearly disqualifies these dollars as government expenditures.

Federal funds accounted for the largest single share (70%) of total revenue sources, and the Department of Health accounted for the largest single share (65%) of expenditures.

Medicaid expenditures are by far the largest single group, followed by Food Stamps.

Largest Programs	General Fund	Education Fund	Federal Funds	Other	Total	% of Total
Medicaid	328,230,800	-	928,137,600	158,883,400	1,415,251,800	62%
Food Stamps	21,120,300	-	155,477,300	-	176,597,600	8%
Disability (Medicaid-eligible)	34,069,500	-	84,116,200	-	118,185,700	5%
School Lunch/Breakfast	-	157,400	101,623,600	-	101,781,000	4%
Family Employment Program	22,848,500	-	64,901,500	-	87,750,000	4%
Child Care	7,142,000	-	48,591,700	-	55,733,700	2%
WIC	-	-	31,529,000	12,674,500	44,203,500	2%
Foster and Adoption Care	14,983,837	-	27,580,949	-	42,564,786	2%
Vocational Rehab (USOR)	254,000	14,600,000	24,884,500	279,800	40,018,300	2%
All Others	58,181,112	16,307,662	134,092,752	6,037,200	212,648,426	9%
Total	486,830,049	31,065,062	1,600,935,101	177,874,900	2,294,734,812	100%

Medicaid includes administration, pharmacy program, and clinic program

Source: Legislative Fiscal Analyst

But isn't most of this just federal money?

Too many state and local leaders look at federal money as "free" money, and argue that if Utah's state and local governments don't spend the money, other states will. There are at least two problems with this perspective. First, Utahns pay federal taxes just like other Americans and therefore are interested in making sure federal taxes are spent efficiently. Second, one of the biggest threats to Utahns' prosperity is the massive federal deficit, which will probably only get worse as baby boomers retire.

What about a tax expenditure report?

Some legislators and organizations wanted to include a "tax expenditure report" as part of the Government Assistance Expenditure Report. A tax expenditure report would list all tax deductions, exclusions, credits, and exemptions. Spending groups argue that tax exemptions, credits, deductions, and exclusions are really forms of government expenditures. In other words, if government lets taxpayers keep more of their own money by exempting 45% of a primary residence valuation from property tax, this is really a government expenditure targeted to homeowners.

While a summary of tax base reductions is not a bad idea (the Tax Commission already lists most exemptions in its various reports), and while some tax base reductions are not easily justified, equating tax exemptions with government expenditures is problematic.

First, reductions in the tax base such as deductions, credits, exclusions, and exemptions are offset by increases in tax rates. While tax rates may not immediately increase as exemptions are granted, in the long run government usually raises rates to offset the reduction in revenue. That's why the biggest tax reform mantra is "expanding the base and lowering the rates".

Second, most exemptions and deductions allow individuals and businesses the discretion to spend their money how they want, whether it means buying a bigger house and getting a larger property tax break in absolute dollar amounts, or spending more on charitable contributions and getting a bigger income tax break. (Of course, they could do both.) Individual taxpayers would lose this discretion if these exemptions were eliminated and government spent the difference, which could explain some of the motivation behind the tax expenditure report in the first place.

While some of these exemptions negatively distort economic decision making or do not promote economic growth as well as an overall rate reduction would, the discretion of taxpayers to spend dollars due to tax exemptions clearly disqualifies these dollars as government expenditures.

We've generally supported broad tax bases (and lower tax rates), but we've never argued that reductions in tax bases are the same as if the state had actually spent these dollars directly in government programs. By lowering tax rates as bases are broadened, taxpayers continue to have the freedom to spend their money as they see fit.

My Corner - by Howard Stephenson

The myths of public education, or Why education needs politics

Utah newspapers have been abuzz about a proposal brought recently by Representative Carl Wimmer and originally by Senator Curt Bramble to require candidates for the State School Board to go through the same election process as other elected state officials. The *Provo Daily Herald* threw down the gauntlet: "Someone needs to explain to us why education needs politics." I'm happy to pick it up.

The *Herald* says opponents of this proposal worry about some corrosive effect of politics on education. Following the fine tradition of Lake Wobegon, the *Salt Lake Tribune* claims that the current "state school board elections work now, with a high degree of success," to keep "special

Neighborhood caucuses are the ultimate in grassroots politics where the political nominating process begins. Delegates are elected to represent their neighbors at state and county conventions where they decide who goes on the ballot to represent their parties.

Political parties would ensure education reform comes from the people, and not just the special interests which currently nominate school board candidates outside public scrutiny.

"state school board elections work now, with a high degree of success," to keep "special interests" out of "the classroom and the boardroom." Instead it ensures that "independent" candidates "without party affiliation" are selected based on their "background and experience."

The *Deseret Morning News* fears that "candidates with extreme political agendas . . . could readily overtake mainstream candidates who do not support the hot-button issue of the day." In a similar vein, KSL's Duane Cardall argues that "having school board members beholden to the machinations of party politics should be enough to make any sensible Utahn cringe."

Politics vs. a mythical education system

Either these editorialists are willfully ignoring the inherently political nature of <u>any</u> publicly funded system, or they are unable to see past the myth of a public education system governed by beneficent philosopher kings.

I'm willing to go out on a limb here and suggest that not one of these editorial writers attended last year's neighborhood political caucuses - even as observers. Neighborhood caucuses are the ultimate in grassroots politics where the political nominating process begins. Delegates are elected to represent their neighbors at state and county conventions where they decide who goes on the ballot to represent their parties.

These editorial writers have a mistaken notion of political nominations occurring in smoke-filled back rooms by party bosses. What they don't realize is that if you like the jury process in our judicial system, you'll *love* the delegate process in political conventions. The delegates serve in a jury-type process where they scrutinize the candidates up close and personal. It's far better than a political primary ballot, where the winners thrive on slick mailers and ten second sound bites.

Politics already pervades public education

Whether the editorial writers like it or not, politics pervades governance of public education. Perhaps the simplest way of measuring the "politicalness" of an issue is to count the number of groups (also known as "special interests") organized around that issue. For example, compare groceries with public education. Both are critically important to our well-being, but where groceries have virtually no interest groups focused on reform, i.e. groups calling for an end to the bread lines, the number of public education special interests goes on ad nauseum.

The PTA, the UEA, the AFT, the Utah School Boards Association, the Utah School Business Administrators Association, the Utah School Superintendents Association, the Utah School Employees Association, the Legislative Coalition for People with Disabilities, the Utah School Counselors Association, the Utah Consortium of Education Leaders, the Utah Association of Secondary School Principals, Utah Association of Elementary School Principals, Voices for Utah Children.

Virtually all of these special interests—and this list is by no means exhaustive—represent, or claim to represent various groups in Utah's classrooms and boards of education. Why are there so many special interests focused on public education? Political scientists write lengthy treatises to explore that question, but the simplest answer is that we have important differences of opinion about how best to structure and operate our system of public education. And since we can't all agree on one solution, we agree to use a set of rules to choose who selects the solutions, and which solutions they'll select. In other words, we use politics.

These rules are manipulated and twisted; tempers flare; and emotion too often trumps reason. That's why politics is so distasteful. However, that distaste is a small price, compared to the alternative methods of problem solving prevailing in Kosovo, Darfur and Afghanistan. And as the *Daily Herald* wrote, "Emotions are a sign that people care, and intense debate energizes the quest for truth. The collision of opposing ideas helps truth to emerge in a livelier fashion than it would in a lukewarm atmosphere of apathy."

What the people want, or what special interests want?

Political parties would ensure education reform comes from the people and not just the special interests which currently nominate school board candidates outside public scrutiny. Lest we forget, the need for reform of public education has been a common refrain of both the supporters and opponents of vouchers. Former State School Board member Tim Beagley wrote, "Our public schools are in need of improvement and I believe we now have a window of opportunity to make some meaningful changes." And The *Daily Herald* said, "While a 62 percent to 38 percent vote may be a

<u>Quote of the Month #1</u>

"The subsidies Lehi taxpayers provide the Legacy Center, Cedar Hills taxpayers provide their golf course, and Davis county taxpayers provide the South Davis Recreation Center all testify to the inability of government-run facilities to turn a profit."

Leonard Gilroy, Director of Government Reform, Reason Foundation.

runaway as elections go, the opinion of more than one-third of the electorate that change is needed is not something that can be taken lightly."

While these assessments are all quite recent, the contrasting attitudes of Utah's editorialists highlight either a disconnect preventing otherwise sober observers of public life from recognizing the need for reform in public education, or willful obfuscation in pursuit of a specific agenda. In either case, it is absurd to lament the introduction of politics into the governance of public education. For my part, I believe the editorial writers are unable to distinguish reality from myth as they opine about a process they know little about first hand. The other alternative requires that they are engaging in the very political subterfuge they decry.

Holladay urges granite School Board to give $70 million to developers

The city of Holladay is proposing to subsidize retail activity and residential construction that will occur on its own in Salt Lake County even without a subsidy. Using tax dollars to incentivize this type of activity makes absolutely no sense since retail and residential construction respond to local demand which is a function of population and disposable income. Taxpayers are the losers when cities use tax incentives to steal retail from each other. If this RDA is approved, the Legislature will have to once again consider reforming RDA statutes.

In the past, we've compared retail RDAs to desert nomads stealing camels from each other. At the end of the day, there aren't more camels in the desert, only their distribution has changed. Holladay Mayor Dennis Webb is the foremost cheerleader for the proposed Cottonwood Mall redevelopment. Under the proposal, over the next 20 years Holladay City, Salt Lake County and the Granite School District would give nearly $100 million—$70 million from the Granite School District alone—to General Growth Properties (GGP), the company who currently owns the Cottonwood Mall. In exchange, GGP will upgrade the current site with more than 1 million square feet of high-end retail and residential space.

But just as most people go bankrupt when playing Monopoly, elected officials' pain threshold is much higher, when they're using taxpayer dollars.

If all goes as planned, Holladay, Salt Lake County and the Granite School District will receive significantly more in property tax revenues when the project is finished, and a smaller increase in property tax revenues while the project is being completed. If all goes as planned.

If, if, if. That darn "if" is a real pain. Every developer, every businessman has a different pain threshold. Some are willing to assume a greater risk for the potential of a bigger pay off; others are content to let lucrative deals pass by, because the potential loss would be too painful.

When it comes to assessing those risks, elected officials aren't quite as careful, at least when they aren't using their own money. It's not because they don't care, or because they want to be cavalier with taxpayer dollars. But just as most people go bankrupt when playing Monopoly, elected officials' pain threshold is much higher, when they're using taxpayer dollars.

The Cottonwood Mall redevelopment project is a perfect illustration. Located on major freeways, the Fashion Place and South Towne malls have replaced the Cottonwood Mall as preferred locations for national department stores like Dillard's and Nordstrom. Unsurprisingly, this mall has lost all but one tenant; its parking lot is a shamble; and some of the most prized land in the Salt Lake valley has been almost vacant for nearly a decade.

Before any upgrades can be done, GGP estimates $100 million of infrastructure work will be necessary to meet various flood plain, fill and other regulations created since the Cottonwood Mall was first built in 1962.

GGP is willing to invest some $550 million into this project over the next 20 years; $650 million takes them past their pain threshold. That's why they want Holladay, Salt Lake County and the Granite School District to put the last $100 million into the project. And if all goes as planned, what is now the Cottonwoods Mall probably will be a destination community. If all goes as planned.

Why should education taxes paying teachers' salaries on the west side of the Granite School District be risked to build condos on the east side?

The question is, why should these taxpayer dollars be placed at risk? Why should education taxes paying teachers' salaries on the west side of the Granite School District be risked to build condos on the east side?

And we can't ignore the further risks inherent in the political world. Holladay was among several cities who considered splitting the Granite School District in half. They opted not to move forward this year, but it would be foolish to believe that the impetus for separation has disappeared. More likely, those who wanted to split Granite School District are just biding their time, waiting to see how the Jordan split goes. Can the Granite School District in good conscience let education taxes be placed at risk, with such a serious threat to their very existence looming?

Public education advocates readily proclaim that Utah schools are woefully underfunded. If that's so, how can they afford to risk these education tax dollars? Mayor Webb and GGP say the dollars aren't at risk, that the increases in tax revenues are guaranteed. If there really isn't a risk, why is GGP asking taxpayers to cough up $100 million in the first place? Why don't they just put the last $100 million in themselves?

UTOPIA's Financials

Following the Government Competition and Privatization Subcommittee hearings this past summer, Rep. Urquhart and others have raised questions about UTOPIA's financials. Even some UTOPIA apologists have lamented the lack of information on their financial position. Fortunately, UTOPIA has published much of the data Rep. Urquhart is asking for. Given the dismal story the data tells, however, it's not surprising UTOPIA doesn't like to talk about it.

UTOPIA's original feasibility study projected that they would receive an average revenue per user (ARPU) of $58 (page 16). Page 29 of the same feasibility study anticipates that a take rate of less than 20% would jeopardize the $10.1 million annual sales tax pledges from member cities. Over the 20 years of the UTOPIA bonds, that means UTOPIA pledging members would have to pay $202 million.

During their June 2007 board meeting, UTOPIA's representatives shared the current state of their finances. Page 2 of their 2007 financials show them with 6,493 customers, and $2.25 million in revenue. (Curiously, UTOPIA still hasn't published that data online, though they did email these financials when Utah Taxpayers Association asked for it.) That means for 2007 their ARPU was just $29, or half of what they were projecting.

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In a recent presentation to the Cottonwood Heights City Council, UTOPIA described their current take rate, both on a system-wide basis, and city by city. On slide 16, UTOPIA indicates that their current system-wide take rate is 16.4%. With their take rate below the break even threshold, and their ARPU just half of what their feasibility study projected, UTOPIA's financial position seems precarious at best.

Their 2007 financial summary raises other serious questions. While they anticipated receiving $5.25 million in fees from subscribing members, their amended budget shows them only receiving 1/3 that amount, or $1.75 million. Similarly, they projected that they would spend $9.0 million in network operations, but their amended budget shows them spending just half that amount, $4.3 million.

The combination of much lower-than-projected subscriber revenue and much lower-than-projected expenses for network operations suggests that UTOPIA didn't attract anywhere near the number of retail customers as they anticipated. In all of these cases, UTOPIA made much rosier projections than actual experience justifies.

In testimony before the Legislature's Government Competition and Privatization Subcommittee, UTOPIA general counsel David Shaw explained the dissonance between their projections and reality as the product of "externalities." Perhaps a better word would be "competition." Given this dissonance, the Legislature can and should ask whether UTOPIA is a going concern. If they aren't, it's hard to see why they should be allowed to expand.