



The Utah Taxpayer

A Publication of the Utah Taxpayers Association

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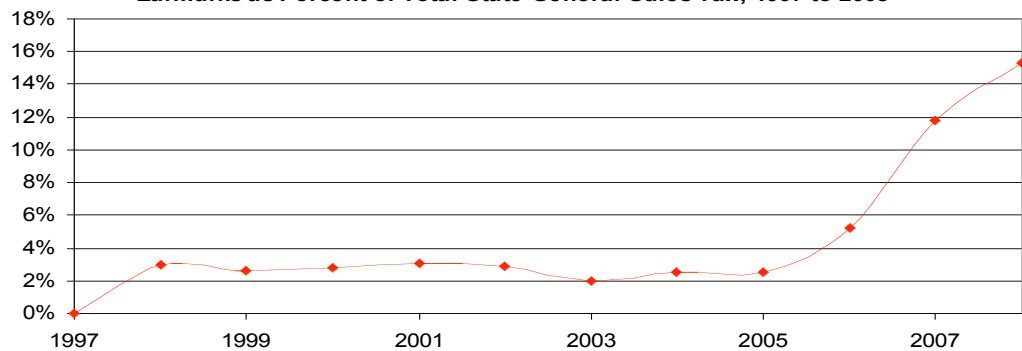
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State Sales Tax Earmarks Continue to Increase

Earmarking state general sales tax revenues continues to increase at an alarming rate. In FY2007, 11.8% of state general sales tax revenues were earmarked for specific purposes, mainly transportation. Based on Gov. Huntsman’s recommendations for FY2008, more than 15% of state general sales taxes will be earmarked for specific purposes. Prior to FY1998, Utah did not earmark general sales taxes for specific purposes.

The following chart shows the history of earmarking general sales tax revenues. Most of the growth in earmarking has occurred since 2005 after a slight decrease during the previous recession.

Earmarks as Percent of Total State General Sales Tax, 1997 to 2008



Calculations by Utah Taxpayers Association based on Tax Commission data

In FY2007, \$221 million in state general sales tax revenues were earmarked for roads and \$28.7 million were earmarked for other projects, mainly water. Total state general sales tax revenues, including earmarks, were \$2.11 billion.

Earmarking general revenues is bad policy

Tax policy experts generally agree that earmarking general revenues such as sales and income taxes is poor policy because government budgeting flexibility is reduced. To maintain fiscal discipline, government programs and projects must compete against each other annually for prioritization, and earmarking prevents this.

However, user fees such as gas taxes and water fees should be earmarked to cover the costs of providing these services. User fees encourage efficient use of resources and infrastructure.

Earmarking “automobile-related” sales taxes for roads is also bad policy

Sales taxes generated by automobile-related purchases should not be earmarked for roads because these are still general revenues, unlike gas tax revenues which are actually user fee revenues. All general sales tax revenues are “related” to some type of specific purchase. Should “food-related” sales taxes be earmarked for food stamps? Should “tourism-related” general sales taxes be earmarked for tourism promotion?

Earmarking selective sales and excise taxes

Many selective sales and excise taxes masquerade as user fees but are really unjustifiable earmarks. Most of these taxes should not even be imposed in the first place. Selective telephone taxes are earmarked for poison control and emergency services. While these taxes may appear to be user fees, they really are not since these taxes are imposed whether or not the user actually calls poison

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Taxpayers Association Legislative Committee Meeting

The Utah Taxpayers Association Will be holding legislative committee meetings during the legislative session every Thursday at 7:00 am, in the cafeteria in the East Annex Capitol Building. Updated bill lists will also be available at www.utahtaxpayers.org

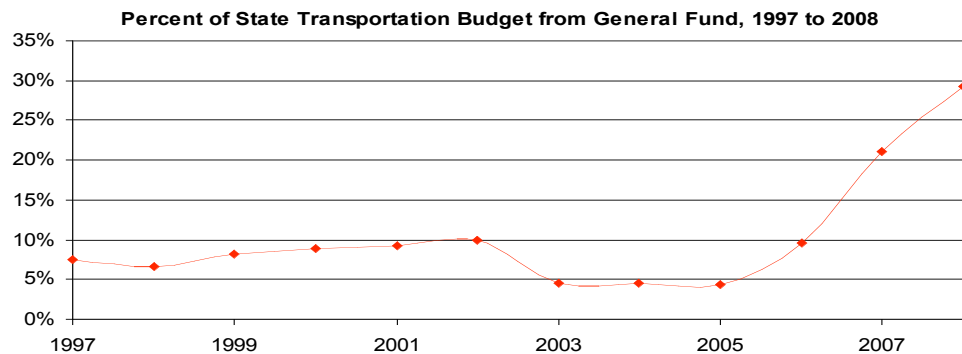
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control or 911. These types of services should be funded by general tax revenues and should be required to compete against other government services for funding prioritization.

More general fund revenues are being used for roads

Prior to the mid-1990s, Utah relied primarily on user fees such as gas taxes and motor vehicle registrations to fund roads. In recent years, the state has been relying heavily on general fund revenues, of which typically 85% is state general sales tax. The remaining general fund revenues are primarily severance taxes, insurance premium taxes, and "sin" taxes such as beer, liquor, and tobacco.

The following chart shows the percent of state transportation expenditures that are funded by general fund revenues. In this analysis, general fund revenues include state sales tax and other general revenues that are transferred from the general fund and do not officially show up as general fund revenues in GOPB budget documents, even though they should. Transportation's share of the general fund increased gradually during the 1990s, decreased during the 2001 to 2004 downturn, and came back with a vengeance starting in 2006. In FY2008, more than 29% of state transportation expenditures will be funded by general fund revenues.



Calculations by Utah Taxpayers Association based on GOPB data

The picture is even worse when local-option sales tax earmarks like ZAP and mass transit are included. The Association will cover this aspect in a future newsletter.

Utah faces serious transportation challenges that have to be addressed immediately. While relying on general fund revenues for transportation may be a short-term necessity, heavy reliance on general fund revenues for transportation would be a long-term mistake. General revenues such as sales taxes do not encourage efficient use of transportation infrastructure and hide the true cost of government to provide these services. Your Taxpayers Association has proposed a four-point plan to address the transportation issue in a fiscally responsible manner.

1. Implement congestion pricing
2. Increase gas taxes while reducing general taxes such as income taxes
3. Increase expenditures for corridor preservation
4. Prioritize rail and road projects based on cost-effectiveness of reducing congestion



My Corner - by M. Royce Van Tassell

Utah Should Embrace the Yellow Pages Test

(Due to Howard Stephenson serving in the Legislature, this month's My Corner comes from Association Vice President Royce Van Tassell)

If you could go back to the drawing board and create your state or local government from scratch, would it do the same things it does today? Unfortunately for Utah taxpayers, public officials rarely ask this fundamental question.

Not satisfied with just managing education, roads, police and the other core duties that traditionally define the scope of government, public officials are creating agencies and departments that compete directly with the private sector. From servicing vehicles to running print shops, and from building convention centers to providing broadband communications services, Utah's state and local governments are cutting into the business of business.

Luckily, reform-minded policy makers on both sides of the political spectrum and across the country are increasingly questioning the wisdom of this trend. The 2008 Legislature is currently considering two bills, H.B. 75 and S.B. 45, that would help state and local governments evaluate whether they are unfairly competing with private businesses.

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Government will always cost money; it's not designed to turn a profit. Focusing government resources on delivering the most crucial, basic services, as the Yellow Pages Test recommends

HB 54 requires assessors in counties of the first, second and third classes to conduct to conduct an annual, computerized, mass appraisal system of all the properties in the county.

In their simplest form, these proposals are plain old common sense, following what former Indianapolis mayor and current Harvard professor Stephen Goldsmith calls the "Yellow Pages Test." According to this test, if a service can be found in the phone book, government ought to buy it, rather than produce it in-house

Leaders as diverse as Florida's former Republican Governor Jeb Bush, Pennsylvania's current Democratic Governor Ed Rendell, and Chicago's Democratic Mayor Richard Daley have all embraced versions of the Yellow Pages Test with great success. Gov. Bush alone achieved over \$741 million in direct savings, and prevented an estimated \$1.4 billion in additional taxpayer costs. At times the Yellow Pages Test evokes strong emotional opposition from unions and special interests. This opposition is misplaced, as the savings generated Gov.'s Bush, Rendell and Mayor Daley shows.

The Yellow Pages Test doesn't delve into whether government should make laws, set policy, or provide police services. It asks a fundamental question – is it really the best use of taxpayer dollars to hire and manage public employees to cut grass, change the oil, sweep the streets, and clean government buildings, when existing businesses already perform these tasks well and almost always cheaper than government?

Too often public officials fail to count all the costs of hiring public employees and providing a service, like lawn care at government buildings. 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. Instead of improving transportation, education or police services, these taxpayer dollars subsidize services that competing private companies are providing at a fraction of the cost.

Government will always cost money; it's not designed to turn a profit. Focusing government resources on delivering the most crucial, basic services, as the Yellow Pages Test recommends, accomplishes two things. First, it helps state and local governments better succeed in those crucial, basic services. Second, it provides a greater the opportunity for entrepreneurs and businesses to expand the economic pie for everyone's benefit. Utah should follow the examples of Gov. Rendell, Mayor Daley, and Gov. Bush, and embrace the Yellow Pages Test.

Key bills in the 2008 General Session

The 2008 General Session is under way, and the Taxpayers Association is making sure elected officials enact sound tax and spending policy. Unsurprisingly, property tax reform is a prominent topic. Several important bills are raising serious questions about the appropriate role and size of government. Below is a summary of key bills the Association is following. To get a copy of our full Watch List, go to our website, www.utahtaxpayers.org.

HB 49 (Harper) Budget Reserve Account and Disaster Recovery Account Amendments

Utah has avoided tax increases during lean economic years by following the example of Joseph of Egypt, and setting aside a portion of the revenues received during the fat years. To better prepare for inevitable economic slowdowns, HB 49 increases the amount of money set aside in the state's "Rainy Day" funds.

Taxpayer Position: Support

HB 52 (Dougall) R&D Tax Credits

HB 52 allows companies to claim a tax credit for qualifying research and development expenditures in the same year those expenditures are made. Given the slowing economy, and the many options these companies have in determining where to make these investments, this bill will ensure Utah remains an economically attractive state.

Taxpayer Position: Support

HB 54 (Harper) Property Tax Assessments

HB 54 requires assessors in counties of the first, second and third classes to conduct to conduct an annual, computerized, mass appraisal system of all the properties in the county. Many of the property tax problems encountered this year stem from the 5 year cycle too many counties have relied on. This annual appraisal will make sure property appraisals are more accurate from year to year.

Taxpayer Position: Support

HB 58 (Dougall) Severance Tax Trust Fund

Like other states with significant economic resources like coal, oil and natural gas, Utah imposes a severance tax on these extracted resources. Because these deposits are finite, however, HB 58 creates a trust fund for a significant proportion of this tax. By creating this trust fund, the revenue from these finite resources can continue, even after the resources are depleted.

Taxpayer Position: Support

HB 75 (Frank) Inventory and review of commercial activities

From recreation centers to golf courses to food services, too often state and local governments compete with their taxpaying residents in the private sector. HB 75 and HB 76 will require the Pri

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THE UTAH TAXPAYERS ASSOCIATION
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While Utah's Truth in Taxation has held the state's property tax level to some of the lowest in the country, SB 29 would create an annual property tax increase for all entities imposing a property tax.

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vationization Policy Board to inventory all the functions carried out by state governments, classify those functions as inherently governmental, commercial, or neither. It will also requires the Privatization Policy Board to develop an accounting method which allows an apples to apples comparison of the cost of providing a good or service in the private sector vs. the public sector.

Taxpayer Position: Support

HB 313 (Harper) Motor Fuel and Special Fuel Tax - Indexing for Inflation

Because Utah's gas tax is imposed on a per gallon basis, and cars have become increasingly fuel efficient, the gas tax has become increasingly unable to function as a transportation user fee. To remedy that situation, HB 313 would index the gas tax to inflation. While Utah needs to increase the gas tax, indexing it to inflation is bad policy. Instead, the Legislature should follow the Taxpayers Association's recommendation, and increase by \$0.25 per gallon, and cut the income tax by the same amount.

Taxpayer Position: Oppose

SB 28 (Stephenson) Electable Single Sales Factor

Under this bill, companies may choose to apportion their taxable income based solely on their total Utah sales, instead of using the current combination of sales, property and wages. This "single sales factor" will provide an incentive for companies to invest in Utah who can move their physical plant and employees to Utah, but who export most of their sales outside the state.

Taxpayer Position: Support

SB 46 (Eastman) Anti-flow control amendments

Some municipalities require private waste management firms to use municipal waste facilities. This bill would allow private waste management firms to use public or private facilities, at the providers' choice.

Taxpayer Position: Support

SB 48 (Eastman) Equalization of school capital outlay funding

While Utah has gone to great lengths to make sure taxpayers statewide share the burden of paying for the operations and maintenance portion of public education, Utah's capital funding is almost exclusively a local enterprise. This localized reliance has created dramatic disparities between wealthy districts with largely stable enrollments, and rapidly growing districts who are relatively poor. To remedy this disparity, SB 48 will equalize a portion of capital funding between all 40 school districts.

Taxpayer Position: Support and amend

SB 45 (Stephenson) Accounting for competitive activities of local entities

From recreation centers to golf courses to food services, too often state and local governments compete with their taxpaying residents in the private sector. SB 45 will require the cities and counties of the first and second class to inventory all the functions they carry out, and classify those functions as inherently governmental or commercial. It also requires those cities and counties to report their inventories to the Privatization Policy Board.

Taxpayer Position: Support

HB 356 (Lockhart) Taxation of Moist Snuff

To avoid artificially distorting economic decision-making, HB 356 changes the taxation of moist snuff from a percentage of manufactures cost to a standard per unit tax of \$0.75 per ounce.

Taxpayer Position: Support