January 2014

Volume 39 Issue 1

THE UTAH TAXPAYER

A PUBLICATION OF THE UTAH TAXPAYERS ASSOCIATION

New Study Gives More Reasons to Oppose Tax Subsidies for a Convention Center Hotel

During the 2013 General Session, one of the most hotly contested bills was SB 267, "New convention hotel development incentive act." Led by Salt Lake County Mayor Ben McAdams, supporters hoped taxpayers would provide roughly $100 million in taxpayer subsidies to the developer of a 1000-room convention center hotel. The Senate narrowly approved the bill, but the House rejected it on the last night of the Session.

Salt Lake County wants more supporters of hotel subsidies

Mayor McAdams' desire for these subsidies has not waned, nor has the Taxpayers Association's opposition to them. Since the House rejected SB 267, a steady drip of people have announced support for a tax-subsidized convention center hotel, among them the head of the Outdoor Retailers convention, Salt Lake's largest convention, and the head of Comic Con, a convention that first came to Salt Lake this past fall.

The most notable trait these supporters share is that they represent conventions already coming to Salt Lake. While they want the additional amenities the subsidized convention center hotel will offer, they have already chosen Salt Lake. Taxpayers shouldn't offer tax subsidies, just because some people want the amenities those subsidies may create.

Taxpayers Association hires consultant to study subsidy issue

Advocates for the subsidies aren't the only ones who've been preparing for the legislative debate in the 2014 session. Last February your Taxpayers Association hired Hospitality Real Estate Consultants (HREC) to evaluate what impact a subsidized convention center hotel would have on existing hotels in downtown Salt Lake.

Subsidized hotel would take $105 million from existing hotels in just 5 years

HREC just completed their report. In the subsidized convention center hotel's first year of operations, more than half of the subsidized convention center hotel's revenue would have otherwise gone to an existing taxpaying hotel. In the first five years of operations, the subsidized convention center hotel would take $105 million in business away from existing downtown hotels. More than 1 in 4 (27%) of the subsidized convention center hotel's room nights would simply be a room night that would otherwise go to an existing hotel.

Not only would Salt Lake County, Salt Lake City and the state be giving away revenue to the subsidized hotel, but they also would lose revenue from business that is already coming to Utah. In effect, this proposal is little more than a $100 million transfer of wealth from existing hotels to a single new subsidized hotel.

1000-room hotel not THE key to more conventions in Salt Palace

Salt Lake County and other advocates of the subsidies argue that the Salt Palace Convention Center is underused because convention planners want a 1000-room convention center hotel attached to or immediately adjacent to the convention center. Without a subsidized hotel, they argue, the Salt Palace will continue to lose convention business.

To test that hypothesis, HREC obtained the "lost business report" from Visit Salt Lake. (Visit Salt Lake is the contract operator of Salt Lake county's convention and visitor's bureau.) The lost business report identifies conventions that considered coming to Salt Lake, but chose not to. Based on responses to that

JANUARY 2014
VOLUME 39

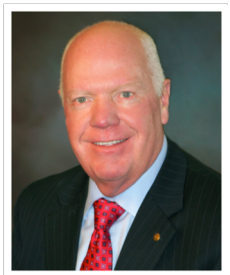
report and HREC's research with these convention planners, HREC identified the reasons conventions chose not to come to Utah. Common reasons for not choosing Salt Lake was that the Salt Palace was already booked, wanting a warmer destination, concern about lack of nightlife, high hotel rates, etc.

The HREC study does suggest one possible opportunity to make the hotel project viable. Bringing a subsidized convention center hotel to Salt Lake will likely increase the number of citywide, mega-conventions like the Outdoor Retailers at the Salt Palace. The visitors to Salt Lake associated with these conventions would not come to Utah without these conventions, so perhaps the Legislature and Salt Lake county should consider an incentive tied to bringing in these mega-conventions.

An incentive designed in this way could satisfy the "but for" test your Taxpayers Association typically applies to other economic development projects. That is, it would stimulate new economic activity in the greater community that would not occur without the incentive. We hope the Legislature and Salt Lake County will explore whether this option could work, without harming existing taxpaying businesses.

Your Taxpayers Association will be sharing the full results of the HREC report with the Mayor McAdams, the Salt Lake County Council, the Legislature and members of the Governor's office. The battle against this and other inappropriate tax subsidies will continue, and your Taxpayers Association will continue to work with the public and elected officials to stop this poor tax policy.

My Corner: Victory for Taxpayers
Macquarie Capital Offers to turn UTOPIA Around



Association President Howard Stephenson

UTOPIA may have an investor. An Australian company which invests in public projects around the world has begun an engineering and feasibility study of UTOPIA, the eleven-city publicly-owned fiber network which has operated for 10 years in the red from the day it opened its doors. The intent of the study is that Macquarie would pay to build out the network and operate it under a 30-year revenue sharing contract. Cities would still be responsible for their existing debt.

In 2004 your Taxpayers Association warned cities against creating a government owned and operated fiber system. Most cities were wary of the proposal but 11 cities thought it was worth the risk and signed up. Cities had to pledge their municipal sales tax revenues to back the proposal and within 5 years those pledges were called, forcing cities to cut essential services or increase property taxes.

Hopefully, Macquarie Capital will follow through and make the formal offer. The eleven cities would be well-advised to take the deal.

Others Should Learn From UTOPIA's experience

The debate over whether cities should get into the telecom business is raging in legislatures and city councils across the country. By last count, nearly 200 cities nationwide either have their own municipal telecom system, or are seriously considering creating one. Nevertheless, the experiences of two of the nation's oldest and largest muni telecom systems, iProvo and UTOPIA, should temper that enthusiasm. While supporters of muni telecom can point to a few financial successes like Chattanooga, Tennessee, in general taxpayers endure heavy burdens, while the second buyers of municipal telecom systems get a steal. The better approach is for cities and states to make themselves fiber friendly so that private investors want to pay for these systems rather than saddling taxpayers with these burdens.

In April 2013 John Curtis, the Mayor of Provo, Utah, made an announcement that Google Fiber was buying iProvo, Provo's failing muni telecom system. Between 2003 and 2012, iProvo's net assets shrank from $6.3 million to negative $3.4 million. iProvo lost money on its operations every year from 2003 to 2009, when then-Provo Mayor Lewis Billings first attempted to sell the network. (In 2011 the buyer reneged on the terms of the sale, and Provo resumed ownership of iProvo.)

Google Fiber's purchase price of iProvo was only $1, and Provo taxpayers still have to repay all the bonds the city issued to build the network. (All told, Provo taxpayers will pay at least $60 million - excluding interest - before they fulfill the city's iProvo obligations.) However, the opportunity to get out from under iProvo's ongoing financial losses, avoid the recurring costs of updating the network's electronics (about $20 million every 3 to 7 years), and have Google Fiber pay to connect every Provo home to the network, made Google Fiber's offer to purchase the network irresistible.

The better approach is for cities and states to make themselves fiber friendly, so that private investors want to pay for these systems rather than saddling taxpayers with these burdens

Having reviewed scores of municipal telecom systems across the country, it's apparent that most of their financial profiles are eerily similar to UTOPIA's and iProvo's. Ashland, Oregon's muni telecom system produced net operating losses of between $543,000 and $1.4 million every year from 2004 to 2013. Since Lafayette, Louisiana started its muni telecom system in 2007, its net assets have shrunk from $1.6 million to negative $40.7 million. In the same period, its annual net operating losses have grown from $100,000 to $11.5 million.

Surprisingly, muni telecom's widespread financial failures haven't stopped other cities from pursuing their own muni telecom systems. Despite Park City, Utah's front row seat watching UTOPIA and iProvo melt down, its city council is studying whether to create their own network. Instead of saddling taxpayers with the well-known risks and burdens of building and operating a muni telecom system, Park City and other cities anxious for broadband development should make themselves fiber friendly. Accelerate the permitting process. Put empty conduit anywhere a city has open trenches. Lower the requirements for companies to obtain franchise agreements.

These are the types of concessions Kansas City and Austin gave Google Fiber, and are obvious templates in defining "fiber friendly." Google Fiber isn't the only company willing to invest in fiber friendly communities. Within hours of Google Fiber's announcement that Austin would be the second Google Fiber

city, AT&T said they would provide the same fiber build out, if Austin gave AT&T the same concessions it gave Google Fiber. Austin did, and AT&T's fiber network in Austin is launching before Google Fiber.

Instead of creating their own telecom systems, or preferring one telecom provider over another, cities and state legislatures should simply make it easy for telecom providers to build their own networks in their jurisdictions. Then private investors can decide whether to risk their own capital, and taxpayers don't have to pay tens, even hundreds of millions of dollars before a second buyer rescues them.

Emergency Department Visits Increase as Medicaid Expands

Researchers from MIT and Harvard recently released a report showing that people covered by Medicaid frequent the emergency room 40 percent more than those that are uninsured. Their study focused on Oregon, where in 2008 the state began a limited expansion of Medicaid to uninsured residents. Uninsured adults (19-64 in age) who were below the poverty line were able to put their name in a lottery that randomly selected participants. The study measured roughly 25,000 participants, some of which were covered by Medicaid and others that were left uninsured.

Oregon's 40 percent increase in emergency care use by those on Medicaid is similar to the experience in Massachusetts under the so-called "Romneycare". Forbes magazine wrote this month that, "[Massachusetts] spent $661 million on uncompensated care in the year before Romneycare went into effect; by the 2009 fiscal year, that figure had decreased to $414 million: a savings of $247 million. But in 2011, the cost of the state's insurance subsidy program was $830 million, and that doesn't even count the tab paid by the federal government for the state's expansion of Medicaid." The increased expenditures show that, "ER visits actually rose by 7 percent between 2005 and 2007, and the state's costs for caring for ER patients rose 17 percent between 2007 and 2009."

Medicaid increases the annual spending in the emergency room by about $120 per covered individual

States have been experimenting with expanding Medicaid, and so far the results have been less than satisfactory. In fact, not only have the data shown that costs go up, but the same MIT/Harvard researchers found earlier last year that Medicaid recipients are not any healthier than their uninsured counterparts. The lofty goal of Obamacare to increase coverage and control costs while improving health outcomes seems to be falling short.

The research also suggested that, "Medicaid increases the annual spending in the emergency room by about $120 per covered individual." This additional costs becomes even more concerning considering the researchers found that, "Emergency department use increases even in classes of visits that might be most substitutable for other outpatient care, such as those during standard hours (on-hours) and those for "non-emergent" and "primary care treatable" conditions."

When considering the sample size of the study, $120 per covered individual is a significant amount of money. That's cause for concern given the researchers explanation that, "all else equal, basic economic theory suggest that by reducing the out-of-pocket cost of a visit that an uninsured person would face, Medicaid coverage should increase use of the emergency department." Or, in other words, when someone else is footing the bill, people make different economic choices. This is apparent in Oregon where Medicaid recipients have increased their emergency department visits by 40 percent over those that are uninsured, even when the uninsured patients care is often free anyway when the patient is unable to pay for the medical care provided.

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The findings also call into question the purpose of Medicaid expansion. Medicaid expansion has been sold as a way to encourage people to get care from primary care physicians, who cost less than emergency room visits. Data in Oregon and Massachusetts suggests that despite the sales pitch from the federal government, Utah should look to other states for an indication of what could happen if Medicaid is expanded.

A decision on whether to expand Medicaid in Utah has been considered for quite some time by Governor Herbert. Your Taxpayers Association has covered this issue in great detail through numerous articles of The Utah Taxpayer, detailing concerns along the way. From the scary prospect of relying on an unreliable federal government for money to cover the costs of Medicaid expansion to the minimal health benefits of being covered by Medicaid or the poor economic choices made by patients when cost is no longer a factor, it is clear that Utah should resist efforts to expand Medicaid and instead study better, more effective options.

Utah Taxpayers Association Pre-legislative Conference

Monday, January 13, 2014 9:00am – 12:00pm
Grand America Hotel, 555 South Main, SLC

Come listen as legislators and opinion leaders discuss the issues that will be facing the state during the 2014 General Session of the Utah Legislature. There is no fee to attend, so please reserve your spot by calling (801) 972-8814 or by emailing heidi@utahtaxpayers.org. View the agenda at www.utahtaxpayers.org.

Utah Ranks in the Top Ten in 2014 State Business Tax Climate Index

At the end of last year the Tax Foundation released the 2014 "State Business Tax Climate Index," and Utah is once again ranked in the Top 10 states with friendly business climates. The "State Business Tax Climate Index" evaluates each state's tax structure using more than 100 variables from each state's individual income tax, corporate income tax, sales tax, unemployment insurance tax, and property tax. The index shows how various elements of a state's tax system enhance or harm the competitiveness of a state's business climate.

Most states in the Top 10 do without one of the major taxes: corporate and personal income tax, property tax, and sales tax. However, Utah uses all three of these major taxes, but levies them with low rates and broad bases. Utah's Legislature and the Governor have adopted sound tax policies. By maintaining a broad base and low rates; Utah's tax system invites people to invest their lives and their fortunes in Utah.

While the Tax Foundation's Index gives Utah much to celebrate, the Index shows many areas where Utah can improve. Your Utah Taxpayers Association supports Utah lowering the personal and corporate income tax rate. Utah should also simplify the sales tax by eliminating boutique sales taxes like the RAP, ZAP or CARE taxes across the state.

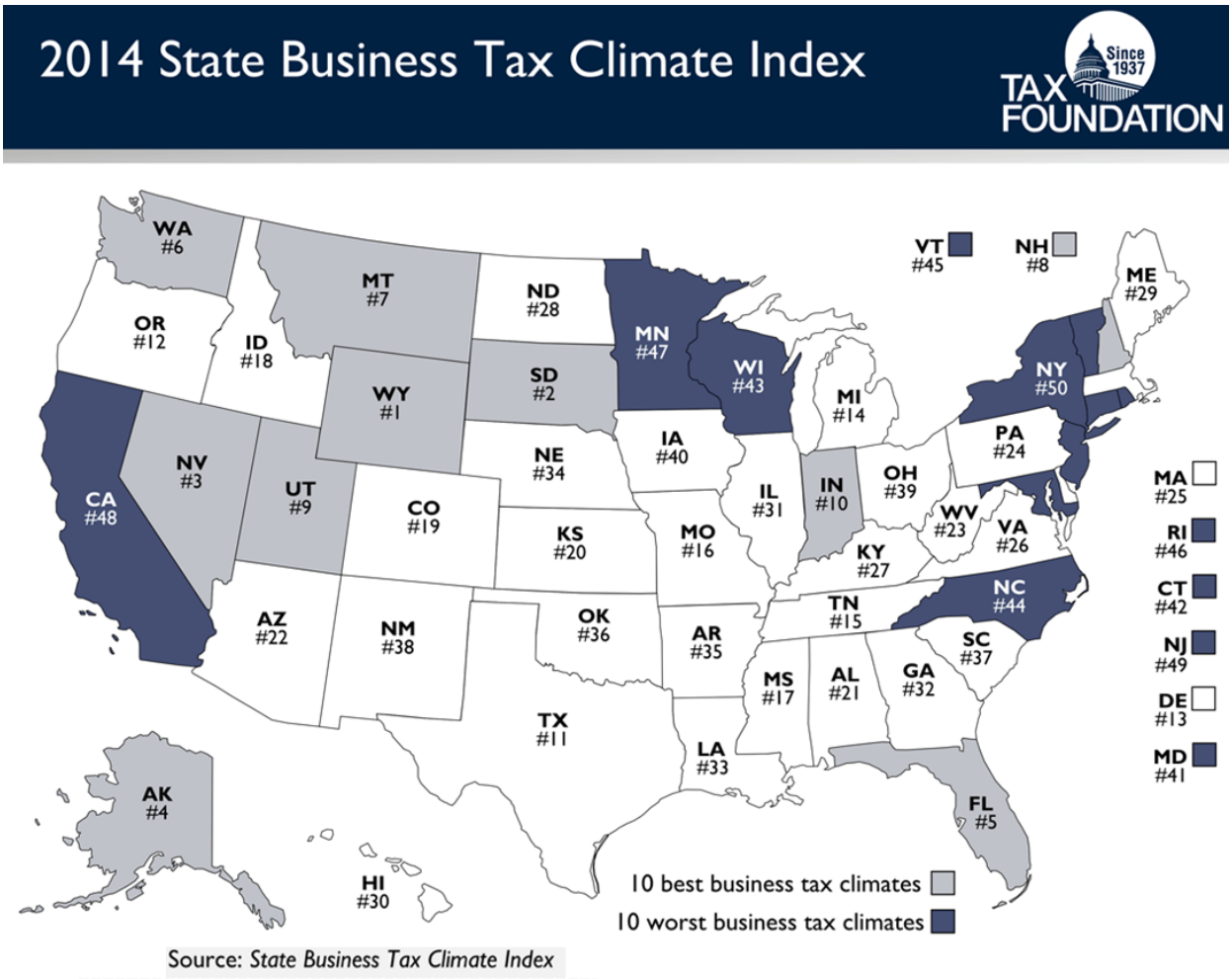
Utah cannot rest on past laurels and needs to continually improve its tax structure. In one of the more surprising findings of the study, Indiana, the other state in the Top 10 that uses all 3 major taxes like Utah, moved up and knocked Texas out of the Top 10. Every state is gunning to be better than Utah, and we need to keep Utah a business friendly state. The Taxpayers Association looks forward to working with our state and local elected officials to make Utah a more attractive for families and businesses.

A full copy of the "State Business Tax Climate Index" is available on the Tax Foundation's website, www.taxfoundation.org.

Utah Scores B+ on COST Scorecard

The Council on State Taxation (COST) publishes scorecards that measure the fairness of state and local taxation on a state-by-state basis, and according to COST's Scorecard on Tax Appeals & Procedural Requirements, Utah scored a B+. An evenhanded statute of limitations, equal interest rates, and transparency in guidance and rules led to the better than average score.

Utah scored a C+ on COST's Scorecard on State Unclaimed Property Statutes. Utah ranked in the middle of the pack as a result of its unclaimed property statutes that include an exemption for gift certificates and its independent review process. Utah's ranking was negatively affected because business-to-business transactions are not exempt, its period of limitations, and no prohibition on contingent fees on audits.



Source: *State Business Tax Climate Index*

2014 Legislative Watchlist

The accompanying table shows some of the bills being monitored by your Taxpayers Association as the 2014 General Session of the Utah Legislature approaches. This list will continue to grow throughout the legislation session. Be sure to visit www.utahtaxpayers.org in order to view the full Utah Taxpayers Association legislative watch list and stay updated on the Legislature's progress. For additional information, join the Utah Taxpayers Association at its weekly legislative committee meetings on Thursdays at 7:00 am in the Seagull Room in the East Annex building of the Capitol.

Bill	Title	Sponsor	Position
SB 19	Appointment and Qualifications of Members of the State Tax Commission	Sen. Stephenson	Support
HB 31	Pollution Control Amendments	Rep. Wilcox	Support
HB 223	School Board Election Amendments	Rep. Nielson	Oppose
HB 224	Sales and Use Tax Amendments	Rep. Nielson	Support
HB 226	Severance Tax Amendments	Rep. Nielson	Support
HB 232	Tax on Sand and Gravel Extraction	Rep. Sagers	Oppose

Half of all Taxpayers Pay Nearly All Federal Income Taxes

Half of all taxpayers continue to pay nearly all income taxes, according to a new report by the Tax Foundation released last month. In fact, the Tax Foundation found that the top 50 percent of taxpayers paid 97 percent of all income taxes.

The report found that taxpayers in the US had higher incomes than in previous years (2011 over 2010). This means that income tax rates increased for all income groups except the top 1 percent of earners. The increased income tax rates meant that the top 50 percent of earners (who earned more than $34,823) paid 88.5 percent of all income taxes while those in the bottom 50 percent (incomes below $34,823) paid 11.5 percent of all income taxes.

Additionally, the report shows that 1.6 million taxpayers were added in 2011 from 2010, up to 136.6 million. While the average tax rate increased from 11.81 percent to 12.54 percent, the top 1 and 2 percent saw their tax rates fall in 2011 from 22.84 percent to 22.82 percent. The top 50 percent of taxpayers saw their average tax rate increase from 13.05 percent to 13.76 percent.

50 percent of earners paid 88.5 percent of all federal income taxes while the bottom 50 percent paid 11.5 percent of all federal income taxes

To read the complete report, visit the Tax Foundation's website at www.taxfoundation.org.

-You're Invited-
Legislative Committee Meetings for the 2014 General Session

The Utah Taxpayers Association will hold Legislative Committee meetings during the Legislative Session every Thursday at 7:00 am, in the Seagull Room in the East Annex building (Senate building) near the Capitol cafeteria. These meetings are open to all members of the Association and will begin on January 30th and will continue through March 6th. We will discuss the progress of bills of interest, provide updated legislative watchlists and answer questions about the legislative session. Please join us on Thursdays at 7:00am.

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