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Macquarie Deal Could Push Cost of UTOPIA Network Past $2 Billion

Recently the Australian firm Macquarie unveiled their Milestone One documents, documents which provide a great deal more detail about Macquarie's proposal to lease, operate and upgrade the long-troubled UTOPIA network(a municipal telecom network 11 Utah cities formed just over 10 years ago). The topline terms sound attractive, but a closer examination suggests very troubling elements.

Specifically, Macquarie wants UTOPIA's member cities to impose an entirely new utility fee on the 157,000 addresses in the 11 member cities. Macquarie estimates UTOPIA taxpayers will see an new annual fee of between $216 and $240 per year. Over 30 years that totals just over $1 billion.

Unfortunately, the actual cost will be significantly higher, because this fee will increase with inflation annually over the 30-year term. While the Macquarie documents don't specify which inflation index Macquarie will use, 2% is a reasonable annual long term estimate. Using that estimate, over 30 years UTOPIA taxpayers will pay between $1.4 billion and $1.6 billion in new utility fees. Needless to say, that's a HUGE increase.

Unfortunately, Macquarie's documents have other troubling details. Specifically, a footnote on page 10 of Macquarie's slideshow presentation reads, "Technology upgrades and maintenance beyond 1Gbps will be the responsibility of the Agencies." In other words, Macquarie will upgrade the UTOPIA network so it will be capable of providing 1 gig service throughout the entire network; if the cities or residents want speeds faster than 1 gig, UTOPIA's member cities will have to pay for that upgrade and maintenance.

These costs are very large, and the closer we get to the details, the more the cost grows. While many hope the Macquarie deal will solve UTOPIA's problems, the most likely outcome is a huge increase in the burdens taxpayers will pay.

A gig speed connection is blazing fast. It represents today's frontier. Consider, however, how the frontier of internet speed has progressed in the past 20 years. In the mid 1990's, users were thrilled to get 56K speeds. File sizes were small to accommodate this limited bandwidth. Webpages with video were still unknown.

Ten years later, speeds had increased dramatically, though they seem quaint by today's standards. "Blazing" connections provided .5 megs. A few fiber connections could push 10 megs. Youtube was new, and it quickly grew to consume more of the world's bandwidth than any other website.

Fast forward another decade, and 10 megs is commonplace. Virtually every ISP offers an affordable 10 meg service (though not all of them consistently deliver 10 megs), and the new frontier is gig service, though few customers purchase it.

If the past two decades are any indication, gig service won't remain the frontier. In 20 years, new websites and services will make gig service look as passé as 56K does today. And yet Macquarie says that if UTOPIA cities want those higher speeds, they'll have to upgrade and maintain it themselves.

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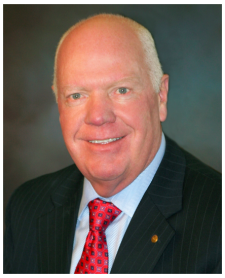
Those upgrades will not be cheap. When Provo sold the iProvo network to Google, Provo's principal benefit lay in avoiding the costs of upgrading the network every three to five years. Provo estimated each upgrade would cost $20 million. Since Provo has about ¼ as many addresses as UTOPIA's 11 cities, upgrading the UTOPIA network could easily cost $80 million per upgrade.

That upgrade and maintenance cost will recur five to ten times during the term of Macquarie's agreement. In other words, UTOPIA taxpayers will be responsible for another $400 to $800 million in upgrade costs, beyond the $1.3 billion to $1.5 billion from the utility fee and the $600 million in existing UTOPIA debt. In total, the Macquarie deal could push the UTOPIA cost well beyond $2 billion.

These costs are very large, and the closer we get to the details, the more the cost grows. While many hope the Macquarie deal will solve UTOPIA's problems, the most likely outcome is a huge increase in the burdens taxpayers will pay.

My Corner: Raising State Income Tax Fails to Bring Promised Results



Association President

The Wall Street Journal reported this week that pharmaceutical company Pfizer is looking at acquiring AstraZeneca, in part because the deal would allow them to lower their overall tax burden. Toyota announced this week that they are moving a large chunk of their American operations from California to Texas, again in large measure so they can lower their tax burden. These examples illustrate a larger trend documented in the pithily named new book, "An inquiry into the nature and causes of the wealth of states" (Wealth of States).

Written by Dr. Arthur Laffer, Stephen Moore, Rex Sinquefield and Travis Brown, Wealth of States systematically compares the outcomes of the eleven states (Connecticut, New Jersey, Ohio, Rhode Island, Pennsylvania, Maine, Illinois, Nebraska, Michigan, Indiana and West Virginia) that have adopted an income tax since 1960 with the states that have no income tax (Alaska, Florida, Nevada, South Dakota, Texas, Washington, Wyoming, New Hampshire and Tennessee), and against the other 39 states as a whole. They find a consistent and important pattern: "The more a state reduces taxes, the faster it grows."

Table 1: The 11 States Adopting an Income Tax in the past 50 years

State	First Year Imposing an Income Tax	Initial Tax Rate	Current Tax Rate
Connecticut	1991	1.50%	6.70%
New Jersey	1976	2.50%	8.97%
Ohio	1972	3.50%	5.93%
Rhode Island	1971	5.25%	5.99%
Pennsylvania	1971	2.30%	3.07%
Maine	1969	6.00%	7.95%
Illinois	1968	2.50%	5.00%
Nebraska	1968	2.60%	6.84%
Michigan	1967	2.00%	4.25%
Indiana	1963	2.00%	3.40%
West Virginia	1961	5.40%	6.50%

Source: Wealth of States, page 3

Growth Measures

Population Exodus

Perhaps the most obvious way to evaluate the success of imposing an income tax is to look at population shifts. If a state has a growing population, people see more opportunity. Unfortunately, not one of the 11 states that adopted an income tax since 1960 were in the top 25 fastest growing states between 2002 and 2012. In fact, nine of those 11 states are ranked between 38 and 50. That is certainly an inauspicious track record, and as the authors point out, "You can't collect tax revenues from people who leave your state."

Adopting an income tax correlates with lower population, lower student achievement, higher crime and greater relative poverty. None of those outcomes bode well for a state.

As obvious as that point sounds, it's import has eluded many policy makers around the country. If higher tax rates cause people to invest their lives and their fortunes elsewhere, why do elected officials continue to raise tax rates? The justification they offer is improved public services. In one state the higher tax rates will improve public education. In another state they will reduce poverty. In a third state they will improve transportation. As it turns out, there is scant evidence to support those predictions.

Worse Education Performance

To evaluate those claims, "Wealth of States" compared the educational performance, public health and hospital public service inputs, police protection, welfare and highway performance, between the 11 states adopting an income tax over the last 50 years

with the rest of the country.

> Of the 10 states that introduced an income tax over the past 50-plus years for which we have data, three increased their fourth grade reading score rankings by a small amount, four fell by a small amount, and three fell in the rankings by over two percent….*Performance got worse, not better.*
>
> In fourth grade math, three of the states improved, seven got worse, and, of the seven that got worse, four virtually collapsed after adopting an income tax. *This is what is meant by dumbing-down.* (page 16, emphasis added)

Table 2: Performance of the 11 States Adopting an Income Tax since 1960 as compared with the rest of the USA, across various measures

	4th Grade Reading	4th Grade Math	Health and Hospital FTEE/10,000 population	Violent Crime Rate (Relative to US)	Poverty rate (relative to rest of US)
Connecticut	Increase	Decrease	Decrease	Increase	Increase
Ohio	Increase	Increase	Increase	Increase	Increase
Rhode Island	Increase	Increase	Decrease	Increase	Increase
Pennsylvania	Decrease	Decrease	Decrease	Increase	Increase
New Jersey	Decrease	Decrease	Decrease	Decrease	Increase
Indiana	Decrease	Increase	Increase	Increase	Increase
Nebraska	Decrease	Decrease	Increase	Increase	Decrease
Michigan	Decrease	Decrease	Decrease	Decrease	Increase
West Virginia	Decrease	Decrease	Increase	Increase	Decrease
Maine	Decrease	Decrease	Decrease	Increase	Decrease
Illinois	Insufficient data	Insufficient data	Decrease	Decrease	Increase

Source: "Wealth of States," page 16-20

More Health, Police and Poverty Problems

In health and human services, "Wealth of States" compares the number of "full-time equivalent employees" per 10,000 of population, as compared to the rest of the nation. By that measure, Ohio, Nebraska, Indiana and West Virginia have improved, while New Jersey, Michigan, Connecticut, Maine, Illinois, Pennsylvania and Rhode Island have all declined vis-à-vis the rest of the nation. Maine, Illinois, Pennsylvania and Rhode Island all saw precipitous drops.

In terms of police protection, "only three of the 11 states managed to reduce their violent crime rate, whereas the violent crime rate increased in each of the other eight states." The income tax has also been a dud at helping reduce poverty. Compared with the rest of the nation, only three of the 11 states adopting an income tax since 1960 have reduced state poverty rates relative to the rest of the nation, while eight have increased relative poverty.

These trends are remarkably uniform. Adopting an income tax correlates with lower population, lower student achievement, higher crime and greater relative poverty. None of those outcomes bode well for a state.

"Wealth of States" evaluates the performance of the 11 income tax adopting states along a host of other variables, including how much taxable income they attracted/repelled, gross state product, total state and local tax revenue and many others. The case for an income tax gets weaker and weaker the closer you look at it.

Of course, Utah already has an income tax, but "Wealth of States" suggests an important policy direction: Utah should lower the income tax, so we are more likely to attract the people and capital necessary for this state to grow and succeed. Between 2004 and 2007 your Taxpayers Association assisted in reducing Utah's top income tax rate from 7.25% to 5%

Utah Taxpayers Legal Foundation Fights Unfair Sales Tax

On behalf of Dunker Imaging, a Utah based electronic advertising company, the Utah Taxpayers Legal Foundation and the Utah Advertising Federation filed an appeal for review on *Dunker Imaging Services Inc. v. Utah State Tax Commission* in the Third District Court for Salt Lake County. The original case revolved around the issues of whether or not Dunker Imaging was required to collect sales tax for its services. While Utah does impose a sales tax on tangible goods, graphic design services are not subject to sales tax. Dunker Imaging argued that it sold graphic design services while the Utah State Tax Commission argues that Dunker Imaging sold photographs, which are subject to sales tax.

Earlier this year the Utah State Tax commission ruled that Dunker Imaging's digital electronic image and graphic designs are not nontaxable services, but instead are "tangible personal property" photographs subject to Utah sales tax. While Utah statutes impose a sales tax on "retail sales of tangible personal property made within the state," Utah Code 59-12-102(108)(c), states that "Tangible personal property does not include a product that is transferred electronically." In addition, Tax Commission Rule R865-19S-111 states that "graphic design services are not subject to sales and use tax". Notwithstanding these statutes and rules, the Tax Commission's Final Decision ruled that Dunker Imaging's preparation and sales of digital electronic images was photograph sales of tangible property and thus taxable.

The Taxpayers Legal Foundation believes that the Tax Commission's ruling does not accurately represent the services Dunker Imaging provides. Dunker Imaging is a Utah company that prepares, provides and sells "images of products to graphic designers who use the electronic and digital images in their designs." The Taxpayers Legal Foundation believes that all graphic imaging services should not be subject to sales tax on their services.

Since the Tax Commission issued its decision, Dunker Imaging charges, collects and remits sales taxes on its graphic design services to avoid further audit deficiencies even though Dunker Imaging still maintains that its graphic design services are not lawfully taxable under Utah statutes and the Tax Commission's own regulations and prior decisions.

Whether at the District Court or ultimately the Utah Supreme Court, the outcome of this case is important to all Utah taxpayers, not only to businesses that sell electronic advertising, but all Utah businesses because a final court decision will clarify whether the sale of electronic services are taxable sales of tangible personal property.

Congressional Candidates **Mia Love** and **Doug Owens** on stage together: 2014 Utah Taxes Now Conference Preview

Your Taxpayers Association is getting ready for its annual Utah Taxes Now Conference on Tuesday May 20th. We are excited to announce that during lunch we will host a debate between Utah's 4th congressional district candidates, Republican **Mia Love** and Democrat **Doug Owens**. The 4th congressional district race is the hottest race in Utah this year. You don't want to miss this one-time event. Join us and be the first to see Love and Owens together this campaign cycle.

We want to give our readers the opportunity to submit questions for this one-time event with Love and Owens. You have the opportunity to ask the candidates the tough questions about how they are going to get Washington and Utah on the right track for our future. You can submit your questions for Doug and Mia to Taxwatch@utahtaxpayers.org or tweet us @UtahTaxpayers. Submit your questions by May 8th.

We are also excited about the topics we will address at the conference this year, including how to introduce technology in education and how to fund Medicaid and transportation. Speakers will include Governor Gary Herbert, Senate President Wayne Niederhauser, House Speaker Becky Lockhart, state legislators and other policy experts. You can see a complete agenda on the next page. Seats are filling up fast, register today to not miss this special event!

36th Annual Utah Taxes Now Conference

When: Tuesday, May 20, 2014
8:00am-2:00pm
Lunch provided

Where: Grand American Hotel
555 South Main Street, Salt Lake City

Haven't registered yet? Seating is limited, so register **TODAY!**

To register visit our website at utahtaxpayers.org or contact Laura Barlow at laura@utahtaxpayers.org or (801) 529-6025.

Registration is $100 for Utah Taxpayers Association members and $125 for non-members

CLE and CPE credit are available!

"Teed Off On Taxes" Golf Tournament

Join the Utah Taxpayers Association for their annual "Teed Off On Taxes" golf tournament on **Tuesday, June 3, 2014** at the Eaglewood Golf Course in North Salt Lake.

Register for the "Teed Off On Taxes" Golf Tournament by contacting Laura Barlow at laura@utahtaxpayer.org or (801) 201-3813.

TENTATIVE

2014 Utah Taxes Now Conference

AGENDA

36th Annual Conference on Taxes & Spending

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

Tuesday May 20, 2014 – 8:00 a.m. to 2:00 p.m.
Grand America Hotel, 555 South Main Street, Salt Lake City, Utah
Moderated by Association President Howard Stephenson and Association Vice-President Royce Van Tassell

7:30 **Registration/Continental breakfast**

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

8:05 **View from the Senate and House**
Senate President Wayne Niederhauser
House Speaker Becky Lockhart

8:20 **Bringing technology into the classroom (HB 131-One-to-one *devices*)**
House Speaker Becky Lockhart
Senator Howard Stephenson
Stan Lockhart, IM Flash

8:35 **Making Utah a tourist and convention destination (HB 356-Convention center hotel, HB 34- Tourism account)**
Representative Brad Wilson
Jeremy Keele, Salt Lake County
Royce Van Tassell

8:50 **Making sure State Tax Commissioners are well qualified (SB 19-Increases qualifications for Tax Commissioners, SJR 7- Removes partisan requirement for Tax Commissioners)**
Senator John Valentine
Dr. Gary Cornia, BYU

9:05 **Improving Utah's property tax system (SB 111-$100M tax increase, SB 61- County TnT hearings, HB 273-Residential exemption, SB 134/SB 136-Referendum ballot requirements, HB 379-Ballot requirements)**
Senator Aaron Osmond
Senator Deidre Henderson
Representative Lowry Snow
Former Representative Ryan Wilcox

9:20 **Governor Gary Herbert**

9:40 **Stimulating business investment in Utah (SB 119/SB65/HB 209- Manufacturing, mining, & steel mill sales tax exemption, HB 140- Tax credit for employing homeless)**
Senator Stuart Reid
Former Representative Ryan Wilcox
Representative Brian King

9:55 **How can Utah cities get out of the morass of municipal telecom? (HB 60-Requires UTOPIA to respect boundaries, SB190-Prohibit telecom utility fees)**
Representative Curt Webb
West Valley Mayor Ron Bigelow
Nicholas Hann, Senior Managing Director, Macquarie

10:10 **Break**

10:20 **What should we do with Utah's Medicaid "donut hole"?**
Senator Brian Shiozawa
Representative Jim Dunnigan
Dr. David Patton, Utah Department of Health, Executive Director

10:50 **How should Utah pay for statewide transportation, and what role should air quality play in discussions? (HB 388-Local option tax for transit, SB 60-Revise gas tax, HB 74-Tax credit for energy efficient vehicle, HB 55-Tax credit for transit pass)**
Representative Johnny Anderson
Senator Kevin Van Tassell
Carlos Braceras, UDOT, Executive Director

11:20 **Paying for new schools in the most cost-effective way (HB 170-Local school board reporting, HB 111-School building cost reporting, SB 218-Charter schools in growth areas, HB 116-School construction standards)**
Representative Dan McCay
Representative John Knotwell
Chris Bleak, Utah Association of Public Charter Schools, President
Representative Rich Cunningham

12:15 **Luncheon: Grand Ballroom/Speaker/Awards**
Utah 4th Congressional District Candidates:
Mia Love and Doug Owens
Taxpayer Advocate of the Year award
Excellence in Public Service award

TENTATIVE