



# THE UTAH TAXPAYER

A PUBLICATION OF THE UTAH TAXPAYERS ASSOCIATION

## Academic Study: Municipal-Owned Fiber Networks, like UTOPIA, are Risky Business

A new academic study has found that government-owned internet networks struggle to make a profit and put taxpayers in danger of seeing their local government increase debt, lose bond rating status and become distracted from other important issues.

The study, released in May, comes from the University of Pennsylvania and examines 20 municipally-owned fiber networks from across the nation, including UTOPIA. The results of the report find that a majority of the networks will struggle to ever recover the costs that were incurred to build the networks. It also found that of the 20 projects only nine are seeing positive cash-flow but of those nine, five are generating returns so small that it would take more than 100 years for the project costs to be recovered. Only two of the nine breaking even are expected to earn enough to cover their project costs during the useful life (30-40 years) of the networks.

The Utah-based UTOPIA project, which is made up of a consortium of 16 cities that joined together in 2002 to provide a public fiber network, was included in the 11 cities that are not making a return on *(continued on page 3)*

### Join Us for "Teed Off on Taxes" Golf Tournament

The "Teed Off On Taxes" Golf Tournament on **Thursday, June 8, 2017** at the Eaglewood Golf Course in North Salt Lake.

**Sponsorship opportunities are available.**

Join us for a fun day of golf, with the opportunity to win prizes such as a Harley Davidson motorcycle, and two round-trip Delta airline tickets to anywhere in the continental United States!

**Space is limited for this event.**

Contact Bren Robinson at [bren@utahtaxpayers.org](mailto:bren@utahtaxpayers.org), click here to [register](#), or call (801) 972-8814 to reserve your spot!

**JUNE 2017**  
VOLUME 42



Municipal-Owned Fiber Networks, like UTOPIA, are Risky Business Page 1



My Corner: The High Cost of Educational Mediocrity Page 2



May Interim Meetings Restart Tax Reform Discussion Page 4



Attendees Get the Insider's Look at State and Federal Tax Reform Efforts Page 5



Association Nets Major Victory for Taxpayer Information Protection Page 5



Taxpayers Association Releases Annual Fast Tax Booklet Page 6



Your Association Accomplishments in May Page 6

#### ASSOCIATION STAFF

Howard Stephenson	President
Billy Hesterman	Vice President
Spencer Nitz	Research Analyst
Bren Robinson	Executive Assistant

#### EXECUTIVE COMMITTEE

Mike Edmonds	Chairman
Morris Jackson	Vice Chair
Bobby Rolston	Secretary
Brice Arave	Treasurer
Keith Pitchford	Legislative Chair

## My Corner: The High Cost of Educational Mediocrity



Association President  
Howard Stephenson

School is out and in the United States most public schools expect their students to take a vacation from academic learning. Brain research doesn't support the practice but the school calendar persists because it's the way we've done it for so long. The professional educators are laid off for a full third of the work year without compensation.

Worse, school buildings are shut down for a full third of

each year. No private sector company would shut down their plants for a third of the year if it meant they had to invest in more plants that are also idled for a third of the year. But public education is apparently so flush with money that they can afford to pay for excess building capacity.

In 2007, in the wake of teacher shortages, the Utah K-16 Alliance published a report through its Special Task Force on Teacher Shortages, also known as the Sperry Study. This was produced by a blue ribbon panel of education leaders. Had the recommendations been implemented, the recommendations could have increased teacher pay by 50% and would have expanded work benefits to include 10 days of paid holidays and four weeks of paid vacation, all within existing revenues.

Now that teacher shortages have returned this proposal could help reduce the shortage by allowing teachers to teach a third semester, not a single Utah school district is even piloting this innovative solution which would compensate teaching like other professions and save billions of dollars in school building costs.

Public education systems in the highest performing countries on the PISA international education report card spend significantly less per student than schools in the US. So why can't American school systems learn from the leading education systems around the world and do better with the funding we receive.

### Our Schools Now Petition

Our Schools Now is proposing a half cent increase in the state sales tax and a half percent in the state income tax. This is expected to yield a windfall of \$700 million

to Utah's school system.

As I talk to those on the boards of the organizations supporting OSN initiative, I find they have looked at the data showing that Utah spends less than other states but they have never considered the real reasons why spending per student is not an indicator of school quality or student performance. They point to Utah's low ranking in spending per student but don't know the legitimate reasons for the ranking.

Our Schools Now says they want these massive amounts of new money to go directly to the school level because the local leaders know best how to invest new money to improve student outcomes. I believe they are sadly mistaken about financial expertise at the local level.

Jordan School Board Member Matthew Young, a highly experienced financial officer in the private sector, says such an infusion of new money in one fell swoop would be misspent while smaller increases spread over a number of years could be planned for and fund significant increases in school performance. The examples of significant new money in public education which did not make a difference are legion.

Facebook founder Mark Zuckerberg gave \$100 million to Newark New Jersey schools hoping to save kids in an overbloomed system only to find it didn't move the needle on student performance. His \$120 million gift to Bay Area schools has yielded similar results.

Bill & Melinda Gates boosted school spending by hundreds of millions of dollars in targeted ways only to find the progress sought for was elusive.

Similarly, this \$700 million tax hike proposal - producing nearly \$1,100 per student cannot be expected to improve student results unless concrete planning is a part of the proposal. And even then it's doubtful the money will improve student performance.

Our Schools Now petition tax proposal has totally ignored the single biggest fiscal problem in Utah's K-12 school system: the grotesque disparities in funding among our 41 school districts.

For example, while Park City generates \$4,500 per student from a relatively low tax rate while Alpine, the state's biggest district produces only \$450 per student from a significantly higher property tax rate. This proposed infusion of \$1,100 in new money from the passage of the tax hike does nothing to suggest

that student performance will improve Utah’s academic outcomes. We cannot ignore the failures of public education.

In the U.S. 20 percent of students drop out of high school before graduation and of those who do graduate, two-thirds are not proficient in math or English. Can you imagine if our automobile purchases had similar lackluster performance? Or our medical care? What about our food supply? There would be rioting in the streets. But when it comes to educating

our kids, mediocrity is just fine.

But Utah school leaders point out that our drop out rate is 15 percent, much better than the national average, and our percent of students proficient in math and English are in the 40s, not the 30s like other states.

Have we become so accepting of mediocrity that these failure rates don’t alarm us? Until education is restructured, no amount of money will improve it.

## Academic Study: Municipal-Owned Fiber Networks, like UTOPIA, are Risky Business for Taxpayers (cont.)

(continued from page 1) taxpayers investments in the project. The study found that if UTOPIA continues in its current state that the project will likely never turn a profit.

The report further pointed out the shortcomings of the UTOPIA project. In the years the report analyzed (2010-2014) it was found that UTOPIA had only achieved obtaining 11,000 subscribers. With a low subscription take, the network, which is actually a wholesaler to commercial internet service providers, was realizing less than \$30 in revenue per household of the cities that make up UTOPIA. That is well below the \$446 per household benchmark achieved by other projects that were included in the study.

The report also took issue with one of the claims that is often made by those justifying a government-owned network. That argument is that investing in fiber serves a necessary function of future-proofing a municipality’s infrastructure. However, according to the study, evidence has shown there is little current need for such high broadband speeds. It states that sound fiscal policy favors timing capital investments so they coincide with

expected revenue, otherwise a city will be forced to pay interest on an investment that is not yet creating any benefits.

Since the creation of the UTOPIA network, your Taxpayers Association has warned, and will continue to warn, elected officials about the dangers

Municipality	Age of Project as of 2010	Net Present Value 2010-14	Adjusted Project Cost	Years for Project to Turn Positive	Annual Rate of Revenue Growth
Fayetteville, TN	10	\$1,141,877	\$14,039,772	61	4.53%
UTOPIA, UT	8	-\$7,188,982	\$224,877,300	never	16.77%
Kutztown, PA	8	-\$1,748,722	\$7,050,207	never	3.10%
Windom, MN	6	\$838,936	\$10,963,025	65	9.86%
Pulaski, TN	5	\$97,948	\$9,602,904	490	10.30%
Burlington, VT	4	-\$10,605,688	\$36,383,199	never	0.68%
Lafayette, LA	3	-\$36,086,333	\$118,789,745	never	35.94%
Tullahoma, TN	3	\$846,549	\$18,264,172	108	20.13%
Clarksville, TN	3	-\$7,442,513	\$43,253,003	never	23.65%
Chattanooga, TN	2	\$2,062,787	\$170,101,635	412	41.08%

of investing in this boondoggle. First, this is an issue of government competing with the private sector, which government never does well, and second, it is making risky decisions with taxpayer money. This new study reiterates the concerns that we have had for years.

As the report states, “A closer examination of specific projects reveals that the risks and consequences are quite real. Many cities managing these projects have faced defaults, reductions in

bond ratings, and ongoing liability, not to mention the toll that troubled municipal broadband ventures can take on city leaders in terms of personal turmoil and distraction from other matters important to citizens. City leaders should carefully assess all of these costs

and risks before permitting a municipal fiber program to go forward.”

You can read the complete University of Pennsylvania study by clicking [here](#).

## May Legislative Revenue and Taxation Interim Meetings Restart the Tax Reform Discussion

Over the 2017 Session, legislators looked at a range of tax reform proposals, from lowering and/or broadening the income tax and corporate income tax base to restoring the sales tax on food.

However, few of these proposals made it through.

The Legislature did take action on adjusting the formula to the gas tax, and continued the expansion of the elimination of the sales tax penalty for business inputs for refiners.

With all these different varying proposals on the table, all eyes were turned to May’s Revenue and Taxation Interim Committee to set the direction for the discussion.

Back in 2007, then-Senator Wayne Niederhauser championed the effort to lower Utah’s income and corporate income tax rate, which brought the rate down for both of these taxes to 5%.

Now as president of the Senate, President Niederhauser is leading the charge to once again help Utah stay economically competitive.

The President addressed members of the Revenue and Taxation Interim Committee and the audience to what he saw as challenges for the state to face and how Utah and the Legislature should come up with solutions.

His remarks focused on Utah’s growing population, the need for more appropriate infrastructure funding, and that policymakers need to be mindful of the burden shift when making changes.

He said Utah needs to look at broadening the base and lowering the income and corporate income tax rates, adding that the income tax is a tax on productivity.

President Niederhauser also spoke on relying more on user fees when addressing Utah’s need for growing and maintaining infrastructure.

He added that the largest tax issue Utah lawmakers have created is not raising the gas tax to keep up with the needs of transportation.

This unwillingness to raise the gas tax has taken its toll on state’s general fund. This past year, \$600 million annually has been transferred from the general fund to subsidize the maintenance and construction of roads in the state.

In the 1990s, Utah’s transportation infrastructure relied entirely on revenue from the gas tax. The gas tax paid for maintenance, construction, and at one point, even the Utah Highway Patrol.

President Niederhauser explained that drivers are not truly experiencing the cost of using the roads, since it is being subsidized so heavily. He added that ending the subsidization would also ease traffic congestion, leading to the need for smaller build-out of roads.

Additionally, he encouraged the Legislature to continue the expansion of the single sales factor apportionment for the corporate income tax, which would have moved nearly all businesses to calculating their income tax based on in-state sales only, rather than the combination of in-state sales, payroll, and property.

While incremental progress has been made on this issue over the past several years, Your Taxpayers Association is committed to continue to push this issue forward.

The Revenue and Taxation Interim Committee opened a committee bill file to relating to business income tax apportionment, which could include the movement to expand single sales factor to all industries within the state.

Rep. Steve Eliason, who serves as the co-chair on the committee shared thoughts on the state’s efforts on tax reforms. Rep. Eliason said he is also encouraged about the discussions on enacting single sales factor. He added that Utah is one of the few states that have yet to expand it for all, and he hopes the Legislature will address that in the coming year.

## Attendees Tune In to State and Federal Tax Reform Efforts at 39<sup>th</sup> Utah Taxes Now Conference

On May 18th, your Taxpayers Association successfully held the 39th annual Utah Taxes Now Conference at the Grand America Hotel, with attendees coming to hear from both local and federal tax experts.

While tax reform discussion continue on both the state and federal levels, the Taxes Now Conference focused on what taxpayers can expect to see over the coming months.

The conference keynote speaker was Majority Staff Director for the United States Senate Finance Committee, Chris Campbell, who outlined several of the proposals of the federal tax reform, and took questions from attendees for nearly 20 minutes.

Mr. Campbell said it is far past time to take a comprehensive look at taxes on a federal level. He said the Senate, the White House, and the House of Representatives, along with other federal agencies, like the U.S. Treasury are all in discussion on tax reform, and he expects to see a proposal into late summer or early fall.

Attendees also heard from Governor Gary Herbert, who outlined the challenges faced by Utah heading into the next decade, including the narrowing of our tax base. Governor Herbert mentioned that ten years ago, roughly 72% of Utah's gross domestic product was taxable, and this year was down to 40%. He remarked that Utah needs to take a look at broadening the base and lowering the rate to ensure fairness and equity for all taxpayers, and for the security against the need for future tax increases.

Additionally, attendees heard from the author of



Attendees at the Utah Taxpayers Association's Taxes Now Conference Hear from Education Leaders on Reform

the 10th annual Rich States Poor States Report, Jonathan Williams of the American Legislative Exchange Council. He reported that Utah scored in the top 20 for 80% of the 15 variables measures by ALEC, ranking number one. Mr. Williams said that Utah has maintained this ranking primarily due to the flat tax at 5% of income for individuals and businesses, as well as staying ahead of the curve on unfunded pension obligations.

Mr. Williams added that states that scored high in their report avoided job-killing regulation, and followed prudent budget practices consistently.

If you were unable to attend the conference, you can listen to the audio from all the presenters, and view the presentation materials by [clicking here](#).

## Association Nets Major Victory for Taxpayer Information

Your Taxpayers Association has won a major victory for taxpayers in protecting proprietary information when a taxpayer appeals a property tax valuation to the courts.

Recently, the Utah Judicial Council adopted a new rule for court procedures that will ensure that commercial information will remain protected instead

of being made available to anyone who requests a copy of the court documents associated with a particular case.

The change comes after nearly two years of negotiating with attorneys, legislators and judicial representatives. The change was needed as taxpayer information was protected when appeals had been

made with the state tax commission but if a taxpayer chose to appeal the commission's ruling to the courts, proprietary information may have been made public, which in a sense was punishing the taxpayer for continuing their appeal.

Under the new rules, taxpayer commercial information will remain protected. If requests are made for any records related to the case those items that were ordered by the court as sealed, private, protected or safeguarded will remain such. Finally, after 30 days from when the court issues a non-appealable, final order, all records will be public, except the classified documents.

This change is important as the former status of allowing taxpayer information to become available to the public could have served as a deterrent to a taxpayer to make an appeal. While the taxpayer may feel their assessed value was incorrect they may have had a bigger fear of challenging the valuation in court

because they would have been required to disclose items of information that were not meant for public consumption. That was unfair and it is outstanding that this has been corrected. Taxpayers should not fear any kind of retribution for attempting to challenge a valuation made by the state.

This change shows that Utah is serious about protecting taxpayer information at all levels of the tax appeal process and that every taxpayer is free to make an appeal without fear of releasing proprietary information.

We appreciate the attorneys at Holland and Hart who worked on this issue and the legislators who assisted the Association with their influence to make certain this rule change could happen. We will continue to monitor this to make certain the rules are followed and that taxpayer information continues to be protected.

## Taxes and Fees Examined in Association's Latest Fast Tax

Did you know there are more than 16 different types of sales tax? Or that 54% of property tax revenue collected in 2015 went to public education?

Each year, your Utah Taxpayers Association researches major taxes and fees levied by the state of Utah and compiles helpful information into the Fast Tax booklet.

This reference summarizes major Utah state and local taxes and is updated to include estimated revenues. These taxes comprise all major non-federal state revenue sources such as income, sales and fuel taxes, and most major local revenue sources, including property, general sales, and specific sales taxes.

This quick reference booklet examines 29 different taxes and fees to provide readers with details of the purpose of a tax or fee, along with how the money is collected, and what agency collects the revenue.

In addition, the Fast Tax booklet provides revenue

distribution, the estimated yields from a tax over several years, and any credits or exemptions that may be applicable.

The Fast Tax booklet does not examine municipal utility rates, such as water or sewer, nor does it cover license fees.

We'd like to thank Parsons Behle and Latimer for their sponsorship of the Fast Tax booklet.

The Utah Taxpayers Association would also like to thank the staff of the Utah Tax Commission, Driver License Division, Division of Public Utilities, Department of Alcoholic Beverage Control and the Department of Workforce Services for their cooperation in providing information contained in this reference.

The Fast Tax reference booklet is available on the Association's website, [www.utahtaxpayers.org](http://www.utahtaxpayers.org), or for a hard copy, email [taxwatch@utahtaxpayers.org](mailto:taxwatch@utahtaxpayers.org).

### Association Accomplishments During May:

- ❖ Organized and hosted the 2017 "Utah Taxes Now" Conference
- ❖ Fundraising and planning activities for the 2017 "Teed Off On Taxes" Golf Tournament
- ❖ Met with sister organizations to plan tax reform initiatives
- ❖ Planned tax boot camp for legislators for upcoming June interim meetings
- ❖ Attended the Legislature's May interim meetings