September 2013 Volume 38 Issue 9

THE UTAH TAXPAYER

A PUBLICATION OF THE UTAH TAXPAYERS ASSOCIATION

Fulfilling the Promise of Public Education: Utah Begins School Grading

by Matthew Ladner

Utah lawmakers have created a system for assigning public schools clear letter grades - A, B, C, D or F, to describe academic performance. Some of the organized public school interests have fiercely resisted the release of these grades, but have been misguided in so doing. Academic transparency has the ability to help identify academic deficiencies and puts a laser-sharp focus on learning for the schools that need the most help.

Florida lawmakers instituted a sweeping suite of education reforms beginning in 1999. The reforms included the expansion of parental choice, providing financial incentives for academic improvement and rigorous coursework and a strong focus on early literacy acquisition. Governor Bush put transparency at the heart of his reform effort by grading all public schools A, B, C, D or F based upon a combination of student learning gains and overall proficiency.

Since the advent of reform, public school improvement in Florida has been quite impressive. Academic researchers from Stanford and Harvard recently examined the progress of state public education systems on the National Assessment of Educational Progress (NAEP). The researchers found that Florida had both the nation's smallest increase in spending per pupil and the nation's second to largest academic gains on the NAEP. Florida turned in the most impressive performance by a wide margin in terms of improving bang for the buck in the public school system. A-F grading has been proven successful in Florida for more than a decade.

Florida had both the nation's smallest increase in spending per pupil and the nation's second to largest academic gains

When comparing Utah and Florida in this study, one state had per pupil spending gains more than double the size of the other, while the other state had academic gains more than twice as large. Utah schools received the greater funding increase, but Florida students banked the far more important academic gains. The reader should note these findings only to appreciate the scale of the opportunity to improve Utah public school outcomes. Utahans students and taxpayers can get more of what they need and deserve from their public education system.

Matthew Ladner

Crystal clear transparency spurred public school improvement in Florida. Communities rallied around schools with low grades and pitched in with improvement efforts. Faced with the reality of the situation, volunteers appeared at schools to mentor students. Rather than sweep Florida's academic problems under a rug, Floridians rose to the occasion.

Florida has just about every K-12 challenge imaginable: explosive population growth, the full gamut of both inner-city and rural school issues. Florida public schools also educate large numbers of foreign born students. Florida has a majority of low-income students and a "majority minority" student demographic profile. Nonetheless, Florida's test scores, college readiness and graduation rates have substantially improved since the advent of reform.

SEPTEMBER 2013
VOLUME 38

Florida policymakers adopted a method for assigning grades which heavily incentivized student progress. State officials assigned half of a school's grade based upon student academic progress on state exams, and double weighted the growth of students who had fallen behind. The results have been impressive as traditionally at risk student groups made up ground. Florida's low-income, minority and special education students achieved impressive academic gains.

People instantly grasp the A-F scale, a distinct advantage over a system of fuzzy labels. A parent can instantly discern for instance that a grade of "B" means middle or the road performance, whereas a label of "priority, focus or reward" mean next to nothing without doing research. No other accountability system has full understanding by parents of what the grade implies. A thoughtful formula balancing academic achievement and progress over time underlie the school grades.

Utah parents, students, educators and taxpayers can handle the truth and will rise to the challenge of improving public education performance. Students can gain a year's worth of knowledge in a year's time. The public needs and deserves a system that will shoot straight and focus our attention on problems rather than allowing them to be quietly ignored. Treating parents and taxpayers as adults by providing them clear and consistent information regarding the realities of both academic success and failure is a necessary step to moving towards the goal of fulfilling the promise of public education.

Matthew Ladner is Senior Advisor for Policy and Research at the Foundation for Excellence in Education.

My Corner: Jordan School Board Must Reconsider its Status-quo Approach to Taxing for School Buildings

Association President Howard Stephenson

The Jordan School Board has entered unprecedented waters. The number of students in the Jordan School District has grown at a staggering pace over the past decade, and there's little evidence to suggest that growth will slow any time soon. To keep up with this growth, the Jordan School Board has asked taxpayers to approve a $495 million bond, the largest school bond in state history.

If you've paid close attention to my positions over the years, you'll know that I look for opportunities to support school district bonds. The Taxpayers Association has opposed and assisted in defeating many school bonds, but we know that education is fundamental to Utah's well being. We need effective schools, which includes paying for cost-effective school buildings.

Unfortunately, the Jordan School Board seems too focused on building more schools, and hasn't focused enough on how to make new and existing schools taxpayer friendly. Herriman High is the newest building in the Jordan School District, and is one of Utah's most extravagant school buildings. While charter schools typically cost between $90 and $110/square foot, buildings like Herriman High run between $175 and $250/square foot.

If the Jordan School Board continues this pattern, they will adversely affect economic growth in the Southwest quadrant of Salt Lake Valley. As the accompanying Chart 1 shows, Jordan's property tax rate is currently just above the statewide average. Approving their proposed $495 million bond would immediately "win" them the highest property tax rate in the state. And they're already planning a similar size bond in just 5 more years. Raise property taxes that much in 10 years, and Jordan will be less attractive for building a home or a business.

There are alternatives. On August 20, I met with the Jordan School Board for more than an hour to discuss several opportunities to improve the way the district manages its schools. First, the Jordan School Board should follow the recommendations of Senator Aaron Osmond and limit the cost of the new buildings to less than the average cost of comparable schools built in Utah over the past five years.

Second, the Jordan School Board should implement a pilot in one high school and its feeder elementary and middle schools that would follow the recommendations from the 2007 Sperry Study. As long time readers of The Utah Taxpayer will recall, that study showed how making more efficient use of existing and new buildings would allow the Jordan School District to give a 50% pay hike to teachers who want it, paid vacations, plus administrative support in the classroom.

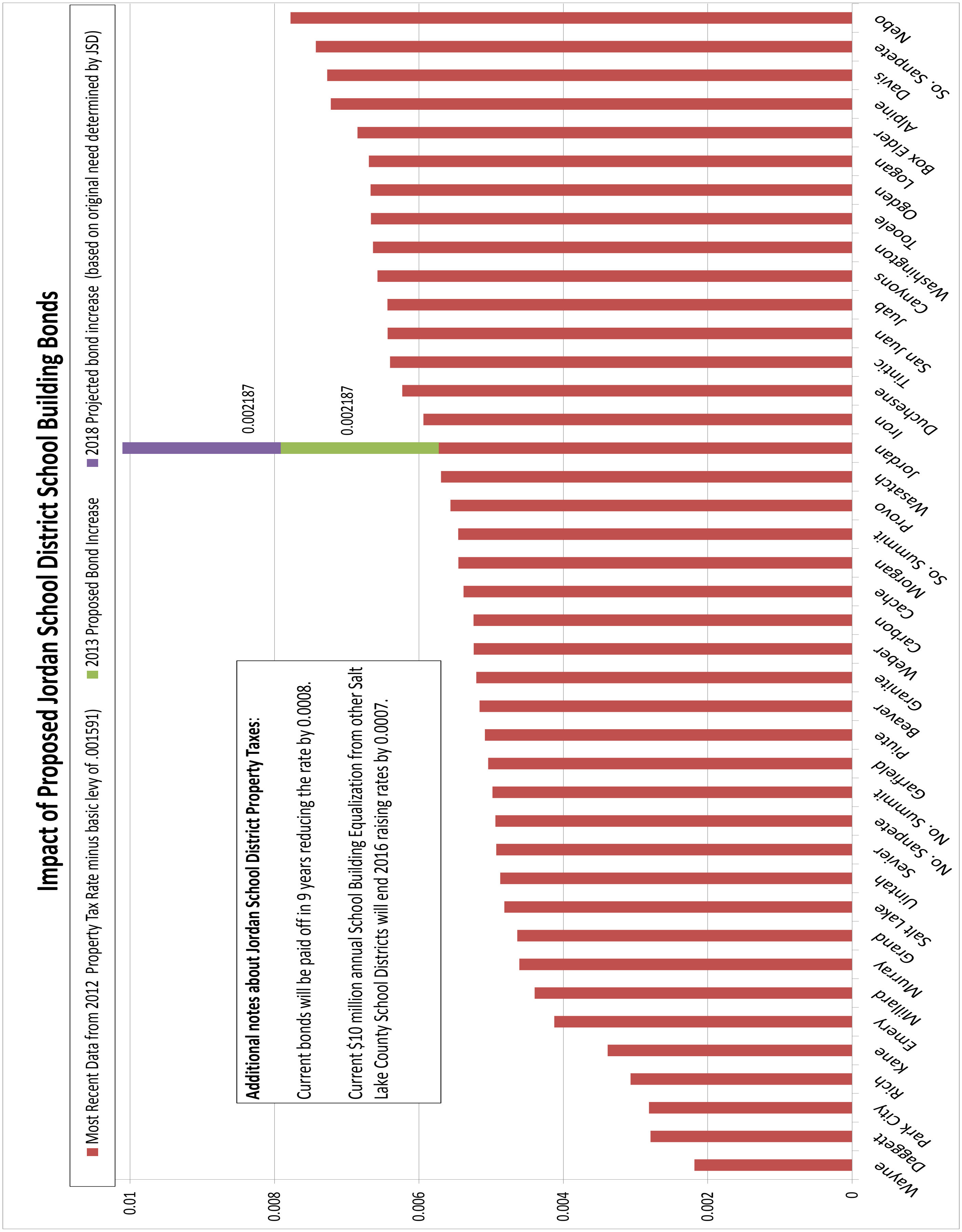
The benefits to children who opt in to the pilot program are no less impressive. The Jordan School Board would become Utah's technology school district, embracing technology in ways that individualizes education, and advances students when they have actually mastered the material, not when they have eked out a passing grade. Every student would then graduate high school with either an Associate's degree or a CTE certificate/license. And all this would cost taxpayers not one cent more. But it could save hundreds of millions of dollars on school building.

The modified schedule this program anticipates would require some scheduling changes for both teachers and parents. Teachers who opt in would teach three trimesters rather than two semesters per year, and parents could send their children to two or all three trimesters. Making these significant changes would require parent and teacher support. I'm glad the Jordan School Board has already formed two committees to engage these important groups.

Finally, the Jordan School Board should work with the Taxpayers Association to eliminate the need for these kinds of massive bond proposals statewide. We need to work together in convincing the Legislature to equalize funding for school buildings.

If the Jordan School Board is willing to embrace these principles, we look forward to working with them on this bond. If instead, they continue the policies of the past, we will lead the charge in opposing this bond. The Jordan School Board should end the tradition of high-cost school building and utilize existing buildings more efficiently. Pursuing the highest property tax rate in the state will do just the opposite.

Chart 1


Impact of Proposed Jordan School District School Building Bonds
Most Recent Data from 2012 Property Tax Rate minus basic levy of .001591)
2013 Proposed Bond Increase
2018 Projected bond increase (based on original need determined by JSD)
Additional notes about Jordan School District Property Taxes:
Current bonds will be paid off in 9 years reducing the rate by 0.0008.
Current $10 million annual School Building Equalization from other Salt Lake County School Districts will end 2016 raising rates by 0.0007.
0.002187
0.002187
0.01
0.008
0.006
0.004
0.002
0
Nebo
So. Sanpete
Davis
Alpine
Box Elder
Logan
Ogden
Tooele
Washington
Canyons
Juab
San Juan
Tintic
Duchesne
Iron
Jordan
Wasatch
Provo
So. Summit
Morgan
Cache
Carbon
Weber
Granite
Beaver
Piute
Garfield
No. Summit
No. Sanpete
Sevier
Uintah
Salt Lake
Grand
Murray
Millard
Emery
Kane
Rich
Park City
Daggett
Wayne

Detroit's Fiscal Condition: An Example of What Not to Do

by Dan Liljenquist

With a per capita murder rate higher than the country of Columbia, over 70,000 abandoned buildings, at least an hour response time after calling 9-1-1, hundreds of parks permanently closed and an illiteracy rate that rivals Haiti, Detroit has become the poster child for failed fiscal policy.

Many states are now finding themselves in increasingly perilous financial straits – and unlike cities, they cannot file for federal bankruptcy protection. Decades of underfunding and tumultuous financial markets have led to unfunded pension liabilities of up to $4 trillion. Cities and states are scrambling to find the money their actuaries calculate is now required to stabilize and repair pension systems that are crippling state and city budgets.

Former State Senator Dan Liljenquist

In Detroit, ambulances don't run, fire truck ladders don't extend and public transportation is largely idle. In San Bernardino County, layoffs are on the horizon and in Tampa, tax rates are going up, all to try and fund depleted pension funds.

The heavily Democratic Rhode Island legislature noted that "[p]ension reform is critical to ensuring that the resources are there to educate our children, repair our roads, invest in economic development, and ensure a viable safety net." Rahm Emmanuel, the mayor of Chicago, has said that without pension reform, taxpayers will be forced to "choose between pensions and police officers, pensions or paved streets or pensions and public health." He also warned that "without pension reform, we'll be forced to mortgage our children's future to pay for our past," predicting that the size of classes in Chicago public schools might have to increase to 55 students."

How did the problem get this bad?

First, the problem has been largely invisible. Laying off teachers makes the news. Increasing pension obligations without the ability to fund them does not. This has allowed some legislators to treat pension systems as a slush fund, diverting money to pay benefits to other programs in the short-term while racking up additional long term debt that, until recently, has gone largely unnoticed.

Underfunding is compounded over time – decisions made now are often not reflected in results until decades later. Underfunding can come from incorrect assumptions about workplace demographics, competing funding priorities, increased benefits without extra contributions, unrealistically high expectations for returns and exceptionally bad returns.

Third, pension math and its accompanying lingo is complex, arcane and unappealing to most people. It can also be used to mask the severity of coming problems via a statistical technique known as "smoothing." Smoothing averages results over 5 years, making results appear less volatile than they actually are. As a result, the effects of the 2008 crash won't be fully incorporated into any national report until 2015.

Tinkering at the edges of pension reform will not solve the problem. In fact, much like making the minimum payments on a credit card, the problem will grow larger, not smaller. Lawmakers need to be committed to substantive, permanent reforms.

Utah's reforms

Utah led the way in 2010 with pension reform that addressed long-term, structural issues. There were three main objectives in getting to meaningful, sustainable pension reform: (1) to ensure, as far as possible, that pension obligations already incurred are fulfilled, (2) to reduce and eventually eliminate pension related insolvency risk and (3) to develop new retirement options that are affordable, portable and facilitate retirement security.

Meeting pension obligations already incurred: Public employees accepted the terms of the defined benefit pension plans that were offered to them, relying on state and local governments to meet their commitments. We wanted to make it clear that reform efforts were underway to ensure that they would still have a retirement plan and that the state would meet its obligations. We engaged in discussions with union leaders early on, before legislative language was even drafted. There were no surprise "gotchas" in the legislation.

Reduce and eliminate pension-related insolvency risk: Doing nothing was not an option. When we asked our actuarial firm to look down the road with several different rates of return, the "do nothing" option showed that the state **would** run out of money in the retirement fund. The only question was how quickly that would happen.

We approached pension reform like we would a chemical spill – first contain it, then work to clean it up. We capped the taxpayer's liability for public pension obligations. Moving forward, we eliminated the practice of double dipping – collecting a pension, then going back to work and collecting a salary as well. It will still take 25 years to make up the shortfall for one year's dramatic losses, but moving forward, Utah's retirement system will be in a much more stable position.

Develop new retirement options: New retirement options include defined-contribution plans, cash balance plans and hybrid models between defined-benefit and defined-contribution plans. A defined-contribution plan is akin to a 401K plan where employer and employee both contribute. Employee benefits are determined by the amount of money in the account at the time he or she retires. A cash-balance plan is similar: a retiree's benefits are determined by the amount of money the employer (and perhaps employee) places into the plan, plus any earnings on that money.

Utah and Rhode Island both chose to offer 2 plans after their reforms – a defined contribution plan and a hybrid plan. In Utah, employees can choose which plan they will participate in. In Rhode Island, the type of work employees do determines which plan they are enrolled in.

The topic of pension reform elicits strong emotions from all sides, often devolving reasoned debate into hysterical hyperbole; open communication between pension stakeholders is critical. Skilled, compassionate leadership can calm the rhetoric, ease concerns and keep reforms on track.

Sound ideas are important for making state governments fiscally strong, but elected officials must also be able to communicate effectively and respectfully. They must also be able to listen, be respectful, understand what is at stake and move forward with thoughtful, deliberate efforts to achieve lasting reforms.

IRS Ruling on Same Sex Marriage Tax Filings Answers Some Questions, Creates Others

On August 29 the IRS clarified another legal question arising from the Supreme Court's decision in U.S. v. Windsor, which ruled Section 3 of the federal "Defense of Marriage Act" (DOMA) unconstitutional. Under last week's IRS guidance, federal tax law will recognize any state-sanctioned marriage, regardless of whether the couple's resident state recognizes that marriage. This "state of celebration" standard contrasts with a "state of residency" standard, under which the couple's resident state would dictate the status of a couple's marriage status for federal tax purposes.

The Supreme Court struck down Section 3 of DOMA, which required that federal law only recognize a marriage between one man and one woman. However, the Supreme Court did not strike down Section 2 of DOMA. Under Section 2, states do not have to recognize marriages performed in other states. The Supreme Court's decision to leave Section 2 intact left open the question of how to apply federal tax code. With no federal statute defining marriage, and differing standards among the states, the IRS needed to clarify who could claim "married" status on their federal tax return.

The IRS' "state of celebration" guidance does not resolve all related questions. Because the first line on nearly all Utah income tax returns refers to "federal adjusted gross income," Utah still needs to decide how it will treat income tax returns for couples whose marriage Utah does not recognize. If a couple's federal return recognizes their marriage in Delaware, Iowa or Minnesota (for example), but that couple also files a Utah income tax return, and Utah does not recognize that couple's marriage, Utah needs to clarify how to calculate the first line of those taxpayers' tax return.

The Attorney General's office is currently examining this question, but several possibilities seem plausible. Utah could allow the two taxpayers to reference "dummy" federal returns that reflect a "single" filing status. Alternatively, Utah could permit the couple to split the joint federal return down the middle. Each of them could claim half the income, half the deductions, etc.

Each option brings different benefits and costs. The first option limits possible additional compliance costs to taxpayers whose marriage Utah does not recognize. The second option would also limit additional compliance costs to taxpayers whose marriage Utah does not recognize. It would likely have lower compliance costs than the first, because dividing by two is easier than completing a dummy return. However, this option may have some unexpected impacts when members of these couples have large income disparities.

Your Taxpayers Association awaits the Attorney General's opinion, and will work with the Tax Commission and the Legislature to make sure Utah tax law continues to reflect sound tax policy.

Tax Questions on November Ballot

This November voters in Jordan School District, Cache School District, Kane School District, Washington School District and Duchesne School District will want to pay particular attention to a couple of items that will appear on their ballots.

Jordan School District has proposed a massive $495 million dollar bond. If approved, this bond will cost taxpayers an additional $240 per year on the average home. According to the District, this bond will pay for the construction of 8 new elementary schools, 2 new middle schools, a new high school, 1 replacement middle school and 1 replacement elementary school. In addition, it will pay for land purchases, around 25 remodel and renovation projects and other projects.

Your Taxpayers Association has carefully monitored this bond, and has provided recommendations to Jordan School Board members.

Cache School District has proposed a $129 million bond to pay for two new high schools one new elementary school three elementary school remodels and other projects.

Logan School District has put forward a $55 million bond to pay for seismic improvements to Logan high school and improvements to elementary schools across the district. Additionally, the District has put on the ballot a $1.3 million levy increase for operations.

The Duchesne School District is proposing a $29 million bond to replace a school and build a new one. The district plans on requesting another bond in 2019 to pay for the construction of an additional high school and make improvements to the existing high school.

Washington School District taxpayers are being asked to approve a $185 million bond to fund new construction of schools, land purchases, and remodels.

Kane School District has a voted leeway on the ballot. More information to follow.

Taxing Entity	Ballot Proposal
Jordan School District	$495 million bond
Washington School District	$186 million bond
Cache School District	$129 million bond
Logan School District	$55 million bond & $1.3 million levy increase
Duchesne School District	$29 million bond
Kane School District	$1.2 million levy increase

Summary of Select Truth in Taxation Hearings in Utah

Throughout August, your Taxpayers Association reviewed proposed property tax increases by local governments and school districts. In many cases, your Taxpayers Association offered recommendations to avoid tax increases. Despite public outcry for more cuts and fewer tax hikes, forty-six local government entities proposed property tax hikes and held public Truth In Taxation hearings. The following are just a few of the Truth in Taxation hearings that your Taxpayers Association weighed in on.

Santaquin City proposed a 100% property tax hike with the hope to pay for road maintenance. After considerable opposition from taxpayers, the City Council passed a 32% increase.

Fairview City proposed an 85% property tax increase to build a new city hall and hire new employees. Your Taxpayers Association challenged the Mayor and Council on imposing a permanent tax increase to pay for a onetime expense, such as a building. In the end, the City Council approved the 85% tax increase.

Pleasant Grove's City Council proposed an expensive $19 million bond to pay for a new public safety building to house the police and fire departments. The Council had planned to use their Municipal Bonding Authority (MBA) to issue the bonds, which means that it only required a vote of the council and not voters. Due to considerable public outcry, the Council voted to send the proposal to the November ballot. This move will save taxpayers millions of dollars in interest payments because General Obligation bonds have a much lower interest rate than a MBA bond.

Every local government in Utah has experienced decreased revenue as a result of the economic downturn. In the same way, every resident and business in Utah has experienced decreased income. The only difference is the ability of government to push their pain onto taxpayers through tax hikes. During tough economic times when businesses and taxpayers are cutting their budgets, governments should be doing the same.