DYNAMICS OF GROUP DECISION-MAKING

INTRODUCING THE GROAN ZONE

GROAN ZONE

DIVERGENT THINKING
NEW TOPIC
FAMILIAR OPINIONS
DIVERSE PERSPECTIVES

CONVERGENT THINKING

DECISION POINT

Sam Kaner, Facilitator’s Guide to Participatory Decision-Making
“In recent years, the legs of the stool have grown at different rates. The differences in the rates of growth have been determined to some degree by legislative changes but for the most part by the evolving Utah economy. Thus, income tax revenues are now predominant, with sales taxes second.”

Governor Olene S. Walker's Recommendations on a Tax Structure for Utah's Future, November, 2004
SALES TAX REVENUE IS GROWING...

...but not as fast as the economy or income tax.
IS UTAH SALES TAX GROWING?

- We heard from an outside group that Utah Sales Tax has grown 68% since 2010.
IS UTAH SALES TAX GROWING?

- We heard from an outside group that Utah Sales Tax has grown 68% since 2010.
- The underlying analysis likely mixes two data series. The first seven years show only free revenue. The last two years show both free revenue and earmarks.
IS UTAH SALES TAX GROWING?

• We heard from an outside group that Utah Sales Tax has grown 68% since 2010.

• The underlying analysis likely mixes two data series. The first seven years show only free revenue. The last two years show both free revenue and earmarks.

• A corrected analysis would include both free revenue and earmarks in all years.
IS UTAH SALES TAX GROWING?

- We heard from an outside group that Utah Sales Tax has grown 68% since 2010.
- The underlying analysis likely mixes two data series. The first seven years show only free revenue. The last two years show both free revenue and earmarks.
- A corrected analysis would include both free revenue and earmarks in all years.
- FY 2010 was the depth of the Great Recession, so this analysis measures “trough to peak”.
IS UTAH SALES TAX GROWING?

- We heard from an outside group that Utah Sales Tax has grown 68% since 2010.
- The underlying analysis likely mixes two data series. The first seven years show only free revenue. The last two years show both free revenue and earmarks.
- A corrected analysis would include both free revenue and earmarks in all years.
- FY 2010 was the depth of the Great Recession, so this analysis measures “trough to peak”.
- The analysis does not account for inflation or population growth.
IS SALES TAX GROWING FASTER THAN INFLATION?

- We heard from an outside group that Utah sales tax is growing faster than inflation.
IS SALES TAX GROWING FASTER THAN INFLATION?

- We heard from an outside group that Utah sales tax is growing faster than inflation.
- The underlying analysis included local sales tax revenue, capturing new local option rate increases.
IS SALES TAX GROWING FASTER THAN INFLATION?

- We heard from an outside group that Utah sales tax is growing faster than inflation.
- The underlying analysis included local sales tax revenue, capturing new local option rate increases.
- The analysis did not account for population growth.
TAKE AWAY #1

• Sales tax revenue IS growing in nominal terms – an opportunity to rebalance revenue and cut taxes.
• Since 1989, inflation adjusted Utah state sales tax revenue per person has been flat or has slightly decreased.
• THE ISSUE IS RELATIVE GROWTH RATES
• In real per-capita terms, across business cycles, state sales tax revenue IS NOT growing as fast as:
  • Income tax
  • Property tax
  • The economy
  • Consumption
UTAH SALES, INCOME, AND PROPERTY TAX PER CAPITA (INFLATION ADJUSTED)

**Total Economy (Personal Income per Capita)**
- Avg. Growth Trend: 1.5% per year

**Income Tax per Capita**
- Avg. Growth Trend: 1.4% per year

**Property Tax per Capita**
- Avg. Growth Trend: 1.1% per year

**State Sales Tax per Capita**
- Avg. Growth Trend: -0.3% per year

**Local Sales Tax per Capita**
- Avg. Growth Trend: 2.7% per year

**Gas Tax per Capita**
- Avg. Growth Trend: -1.0% per year

Sources: Utah State Tax Commission, U.S. Bureau of Economic Analysis
THE SALES TAX BASE IS NARROWING...

...but not at a constant rate.
IS UTAH’S SALES TAX BASE EXPANDING?

- We heard from an outside group that the sales tax base has expanded since 2010.
IS UTAH’S SALES TAX BASE EXPANDING?

- We heard from an outside group that the sales tax base has expanded since 2010.
- The underlying analysis appears to use revenue (1%-2% GDP) not taxable sales (~35% of GDP).
IS UTAH’S SALES TAX BASE EXPANDING?

• We heard from an outside group that the sales tax base has expanded since 2010.
• The underlying analysis appears to use revenue (1%-2% GDP) not taxable sales (~35% of GDP).
• The underlying analysis appears to use the same errant revenue data discussed earlier (does not include earmarked sales tax until 2017).
IS UTAH’S SALES TAX BASE EXPANDING?

• We heard from an outside group that the sales tax base has expanded since 2010.

• The underlying analysis appears to use revenue (1%-2% GDP) not taxable sales (~35% of GDP).

• The underlying analysis appears to use the same errant revenue data discussed earlier (does not include earmarked sales tax until 2017).

• A corrected analysis shows much flatter sales tax base as a proportion of GDP since 2010.
IS UTAH’S SALES TAX BASE EXPANDING?

- We heard from an outside group that the sales tax base has expanded since 2010.
- The underlying analysis appears to use revenue (1%-2% GDP) not taxable sales (~35% of GDP).
- The underlying analysis appears to use the same errant revenue data discussed earlier (does not include earmarked sales tax until 2017).
- A corrected analysis shows much flatter sales tax base as a proportion of GDP since 2010.
- 2010 was the depths of the great recession, so the analysis measures trough to peak.
Will Taxable Sales Tank?

- We heard from an outside group that the Utah sales tax base will precipitously decline over the next decade.
WILL TAXABLE SALES TANK?

- We heard from an outside group that the Utah sales tax base will precipitously decline over the next decade.
- The analysis uses a straight-line forecast on a complex dataset.
- Most certainly the business cycle will eventually cause this ratio to rebound.

Source: Governor’s Office of Management and Budget and Ken C. Gardner Policy Institute
WILL TAXABLE SALES TANK?

- We heard from an outside group that the Utah sales tax base will precipitously decline over the next decade.
- The analysis uses a straight-line forecast on a complex dataset.
- Most certainly the business cycle will eventually cause this ratio to rebound.
- We’ve already addressed some of the erosion via remote sales.
- This is not a consensus forecast.

Source: Governor’s Office of Management and Budget and Kem C. Gardner Policy Institute
TAKE AWAY #2

• It’s All About the Base! (apologies to Megan Trainor)
• Sales tax base as a proportion of the economy ebbs and flows with the business cycles.
• For each cycle, upward movement is more than offset by downward movement, creating the long-term trend.
• Taxable sales as a proportion of the economy (GDP or Income) are declining over the long-run.
• Taxable sales as a proportion of consumption are also declining over the long-run.
SALES TAX BASE VS. CONSUMPTION

[Graph showing the relationship between sales tax base and consumption from 1997 to 2017.]
STATE SALES TAX COLLECTIONS AS A PERCENTAGE OF GDP

Source: https://comm.ncsl.org/productfiles/126168546/Bill_Fox.pdf
LESSONS LEARNED FROM TOWN HALLS

Policymakers educated...and got educated.
WE Ourselves Are Not Immune

Davis County

Utah County
REMOTE SALES WILL HELP

• Amazon Voluntary Agreement = $40 m/yr
• Wayfair v. South Dakota = $59 m/yr
• Marketplace Sellers = $6 m/yr
• Total = ~$105 m

• Most of Wayfair $ used to offer Exemption for Manufacturing equipment with less than 3 years life.
• Other revenue build into ongoing budgets.
• However, potential exists for strong future growth.
E-COMMERCE SALES IN U.S.

Source: https://comm.ncsl.org/productfiles/126168546/Bill_Fox.pdf
IMPACT OF E-COMMERCE ON SALES TAX BASE

- “Avoidance behavior will continue”
- “The bottom line, revenues will be smaller than some expect”
  - William F. Fox, Director, Boyd Center for Business and Economic Research, University of Tennessee

Source: https://comm.ncsl.org/productfiles/126168546/Bill_Fox.pdf
TAKE AWAY #3

• We have a valid challenge – a budget problem – and budgets include both income and spending.
• Expanding the sales tax base may be part of the solution.
• Many past policy decisions – along with the economy – led us here.
• Policymakers may have assumed that past policy decisions were settled.
• Options are back on the table that before were off.
• We don’t do “crisis” in Utah.
"During the past 45 years, Utah has seen the nation’s second biggest decline in taxable sales as a proportion of consumer expenditures. Beginning in 1975, Utah’s sales tax imposed a larger tax burden than income or property taxes. During the past two decades it has trended downward to impose the smallest burden of the three. Utah had essentially the same real per capita sales tax revenue in 1978 as in 2016 – meaning that, as costs climb, the state is losing purchasing power from this revenue source...Sales taxes on services are supported by economists and policy analysts across the ideological spectrum. However, expanding sales taxes to capture services can face intense pushback from industries to be affected and from citizens who fear the change will result in net tax increases."

The Everyday Tax, Utah Foundation, June 2018, p. 1
“Utah’s sales tax base is not as narrow as some of its peer states’ bases, but it remains narrow – and erodes further each year.”

“Digitization/sharing economy will continue eroding the [sales] tax base”

William F. Fox, Director, Boyd Center for Business and Economic Research, University of Tennessee
July, 2019
“As structured, the [sales] tax embodies bad tax policy that appears to worsen over time, putting the sales tax on an unsustainable path. No remedial action is easy, but repairing the tax is surely simpler than starting over, and states need the revenue because the sales tax provides an important foundation for their tax systems. The solution is straightforward: Tax all household consumption expenditures and exempt all business purchases. States can begin by adding more household consumption services to the tax base and by restraining their inclination to offer exemptions that seem to be good ideas at the time.”

John L. Mikesell, PhD, “Reversing 85 Years of Bad Tax Policy”, Tax Notes, February 1, 2019
"There are several problems with the [sales] tax. First, the overall sales tax base is declining. There is a long-term shift in the economy to services rather than goods. The current tax base does not capture many of these services. Also, there are numerous sales tax exemptions that cause Utah businesses to shoulder widely differing tax burdens."

Governor Olene S. Walker's Recommendations on a Tax Structure for Utah's Future, 2004, p.iii
## ONE LAST DATAPoint:

**Year-End Surpluses/(Deficits) by Tax Fund (Dollars in Thousands)**

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>General Fund (Sale Tax)</th>
<th>Education Fund (Income Tax)</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>11,342</td>
<td>35,043</td>
<td>46,385</td>
</tr>
<tr>
<td>2013</td>
<td>(350)</td>
<td>122,400</td>
<td>122,050</td>
</tr>
<tr>
<td>2014</td>
<td>7,224</td>
<td>105,543</td>
<td>112,767</td>
</tr>
<tr>
<td>2015</td>
<td>(15,675)</td>
<td>59,505</td>
<td>43,830</td>
</tr>
<tr>
<td>2016*</td>
<td>7,196</td>
<td>(2,186)</td>
<td>5,010</td>
</tr>
<tr>
<td>2017</td>
<td>9,585</td>
<td>17,608</td>
<td>27,193</td>
</tr>
<tr>
<td>2018</td>
<td>7,966</td>
<td>149,882</td>
<td>157,848</td>
</tr>
<tr>
<td>2019 Preliminary</td>
<td>(43,000)</td>
<td>140,000</td>
<td>97,000</td>
</tr>
</tbody>
</table>

*Both GF and EF would have been in deficit at the end of FY 2016 (GF -$13 m; EF -$2 m) except for a software change at the Utah Tax Commission that began mid-year allocating more insurance premium taxes to the General Fund and less to firefighters’ retirement and training.