

Equalization of Per Student Property Tax Revenue

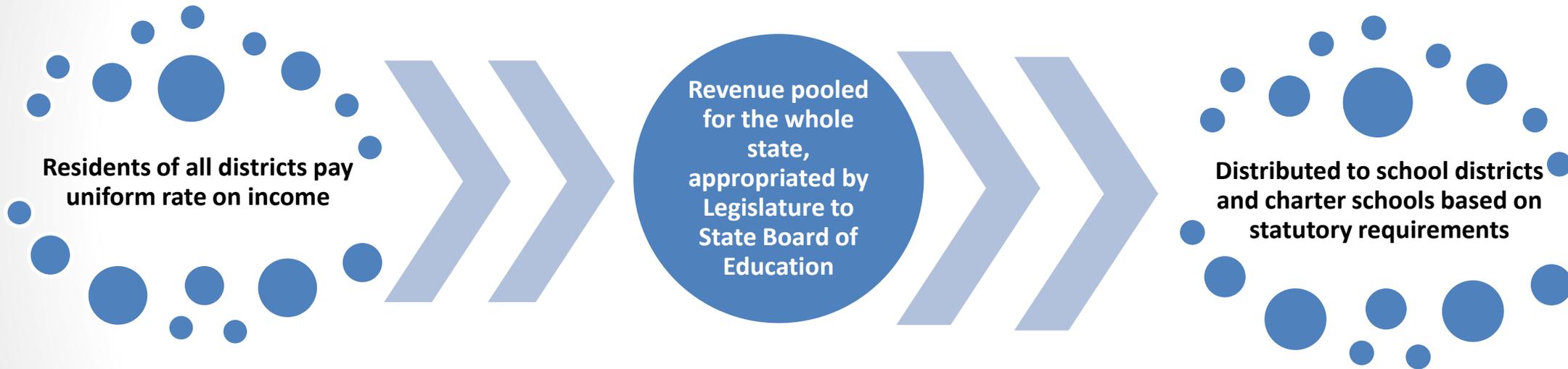
Education Interim Committee

06.15.16

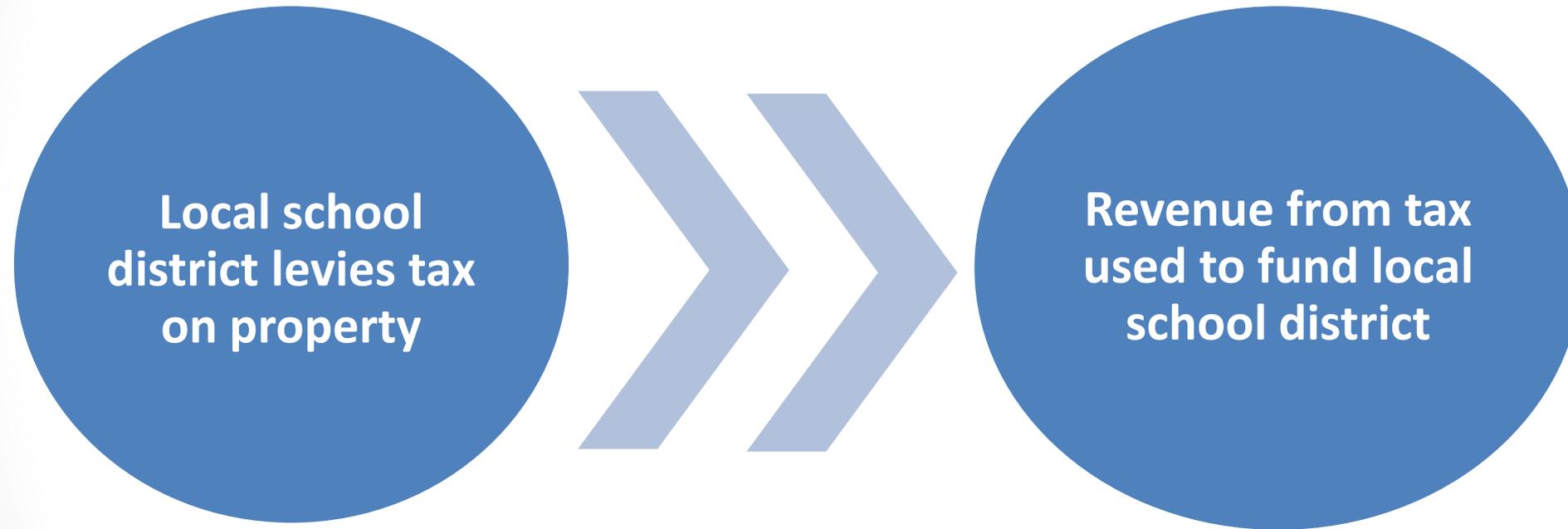
Introduction

- The revenue sources used for public education and the reasons the Legislature has chosen to equalize funding;
- Definition of equalization
- The statutorily created programs that equalize property tax revenue across districts including:
 - The Basic Program
 - The Voted and Board Local Levy Guarantee Programs
 - The School Building Programs
- The extent to which public education funding in Utah is currently equalized

Income Tax



Property Tax



Property Tax

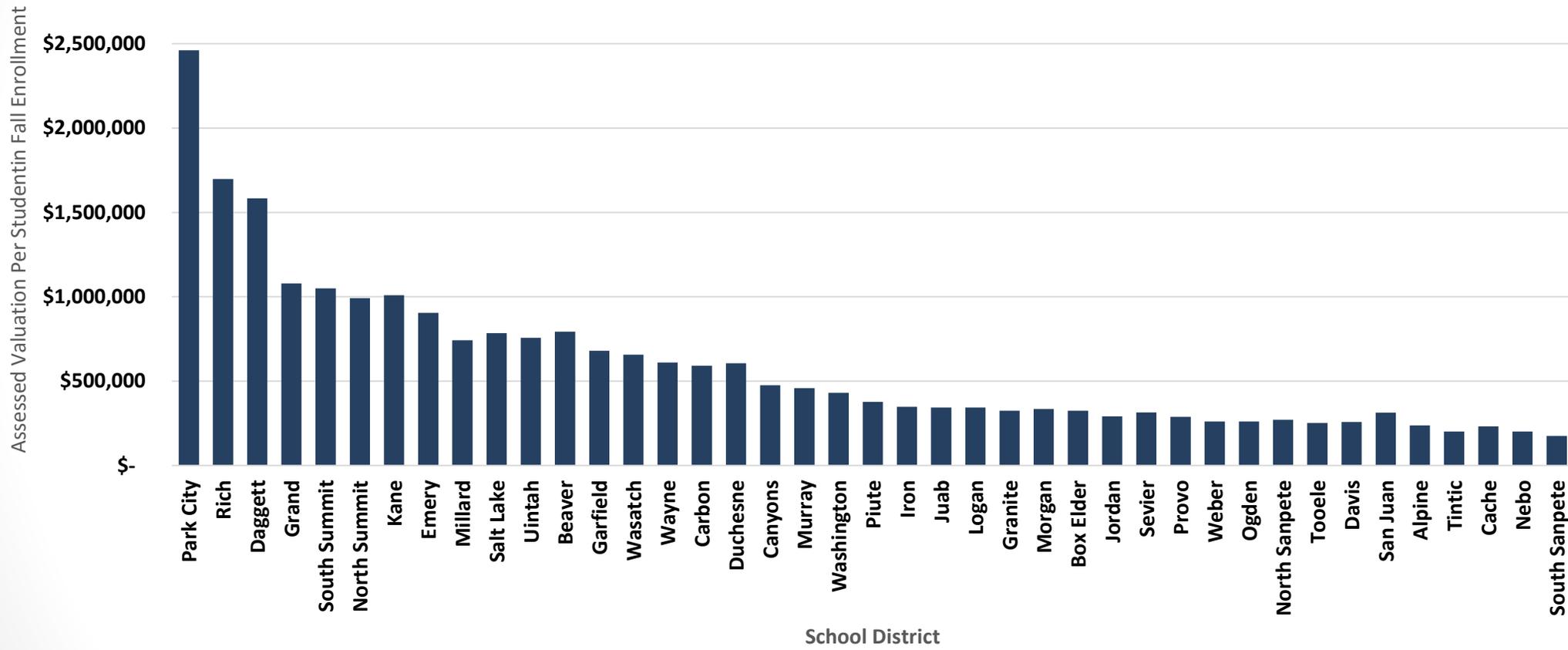
Levy	Description	Maximum Allowed Rate
Basic Levy (U.C.A. 53A-17a-135)	Local-state shared portion of each school district's Maintenance and Operations Expenditures	Uniform Statewide – estimated at .001695 for the 2016-2017 school year
Voted Local Levy (U.C.A. 53A-17a-133)	Levy approved by the majority of the electors of a school district to be used for maintenance and operations	Up to .0020
Board Local Levy (U.C.A. 53A-17a-164)	Levy approved by a local school board to fund operations and maintenance	Up to either .0025 or .0018 depending on the district historic tax rates
Capital Local Levy (U.C.A. 53A-16-107)	Levy to fund capital projects and, in some cases, maintenance of school facilities	Up to .0024
Debt Service Levy (U.C.A. 11-14-310)	Levy to fund general obligation bond principal and debt payment	None



Variables that Contribute to Differences in Per Student Property Tax Revenue

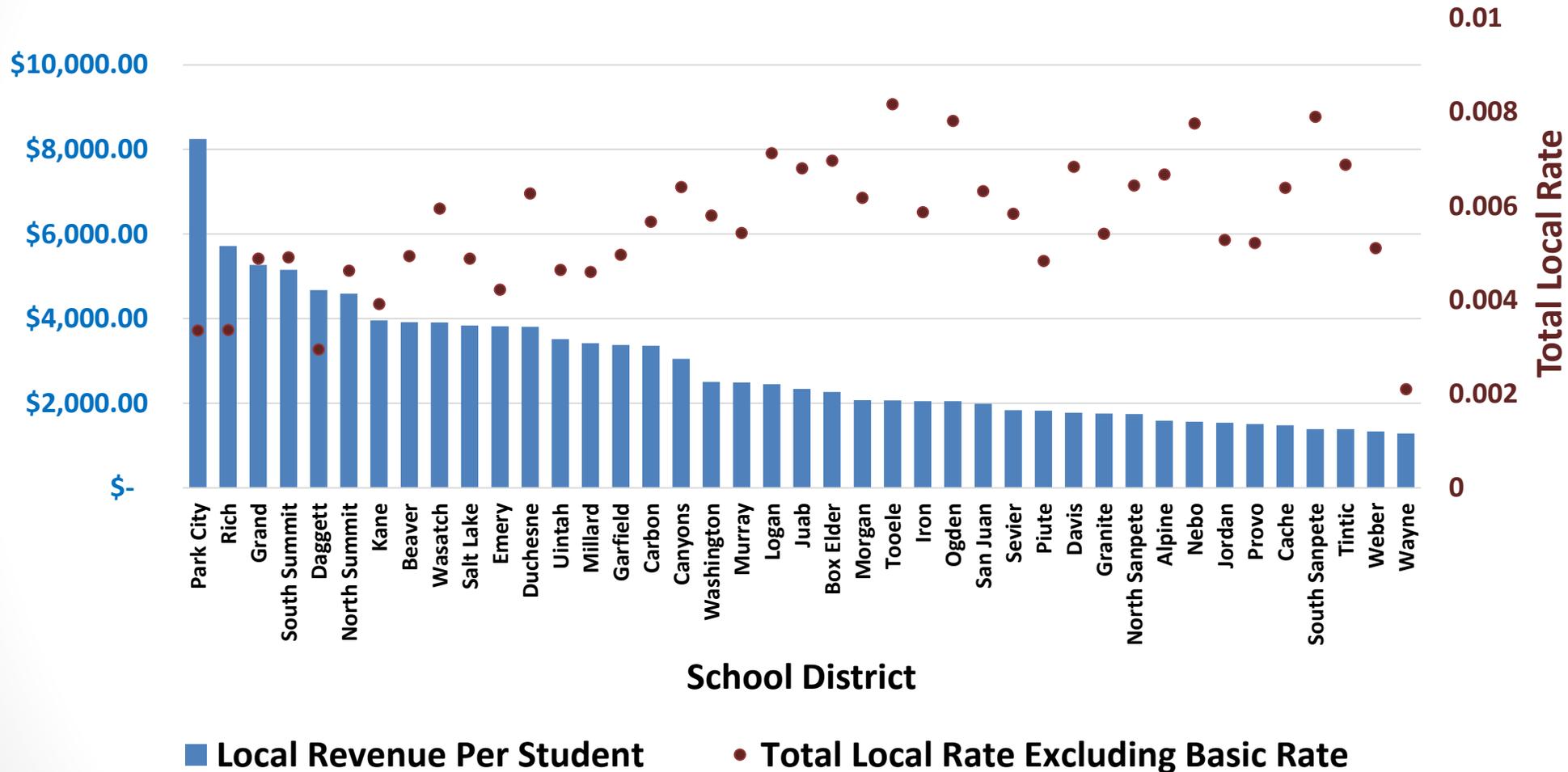
- The rate levied
- Statutory caps for particular levies
- The total taxable property value in the district
- The number of students in the district

Assessed Valuation Per Student in Fall Enrollment, Fiscal Year 2015



Local Revenue Per Enrolled Student and Total Local Rate, Fiscal Year 2015

Local Revenue Per Enrolled Student



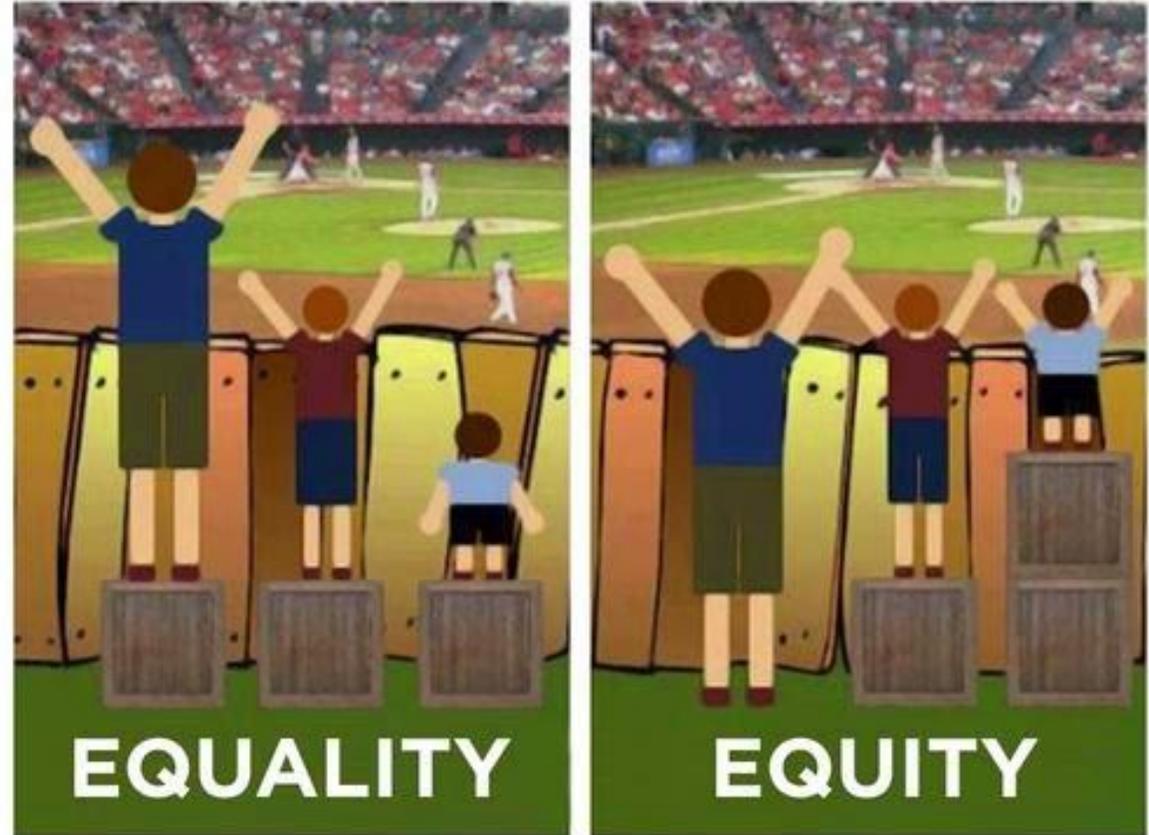
■ Local Revenue Per Student

● Total Local Rate Excluding Basic Rate



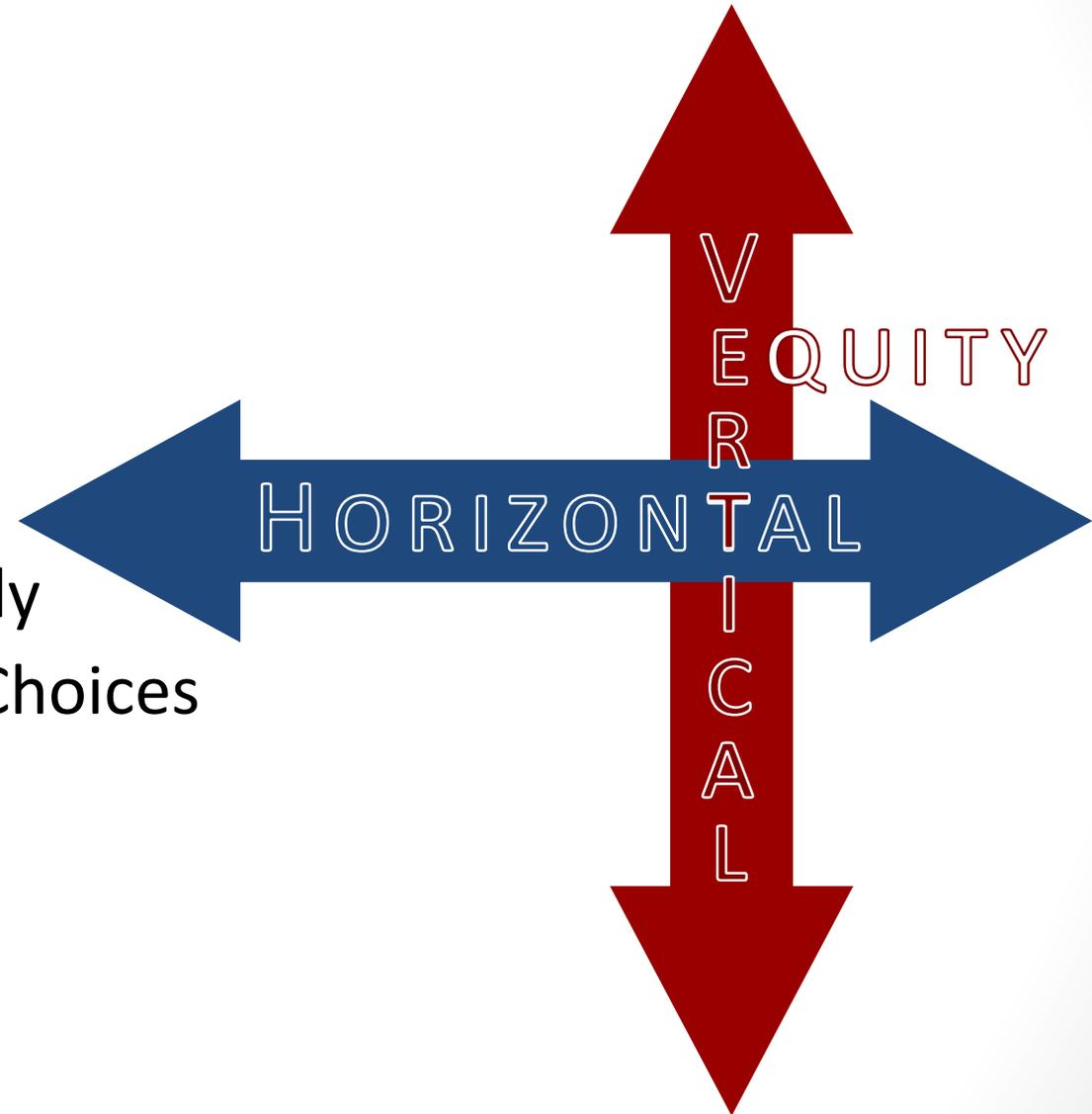
Funding Equity – What does it mean?

- Equality vs. Equity
 - Equality – Cost same for all students
 - Equity – Cost varies depending on student
- Equalization
 - Process of making equal or providing equity



Achieving Equity – What does it look like?

- Horizontal Equity
 - Equals Treated Equally
 - Easy to Quantify
- Vertical Equity
 - Differences Treated Differently
 - Difficult to Quantify – Value Choices
- Tax Equity
 - Wealth of Whole State
 - Taxpayer Effort



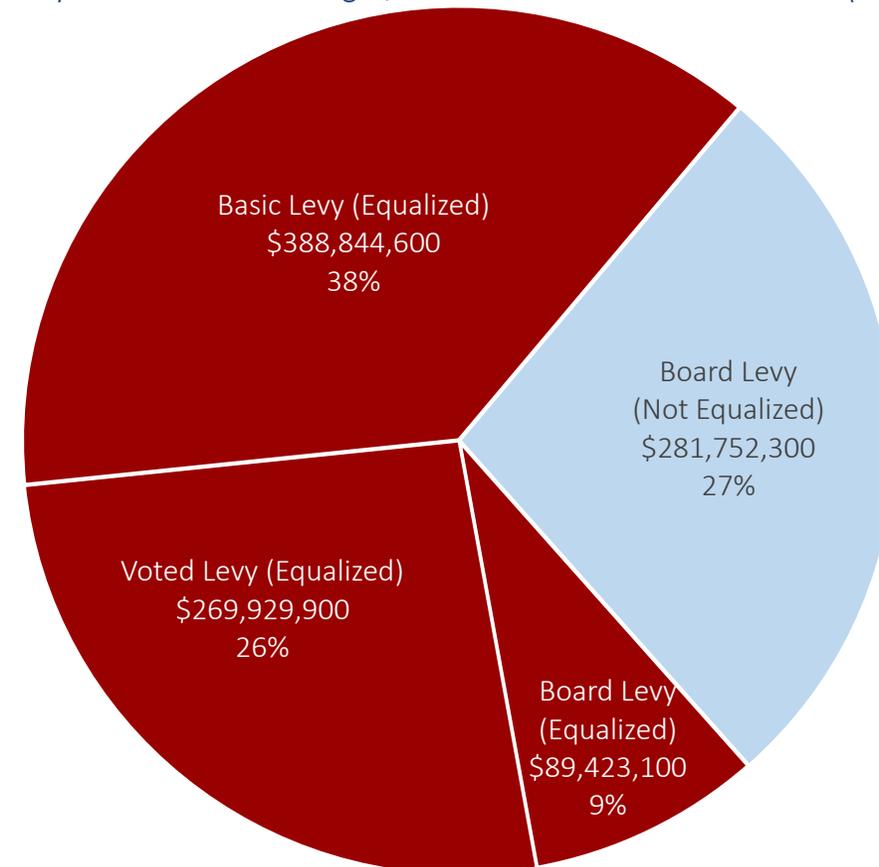
Statutory Requirement – 53A-17a-102

- “All children of the state are ***entitled to reasonably equal educational opportunities*** regardless of their place of residence in the state and of the economic situation of their respective school districts”
- “Establishment of an educational system is primarily a state function, ***school districts should be required to participate*** on a partnership basis in the payment of a reasonable portion of the cost of a minimum program”
- “Each locality should be ***empowered to provide educational facilities and opportunities beyond the minimum program*** and accordingly provide a method whereby that latitude of action is permitted and encouraged”

Equalization in Practice: Property Taxes for Operations

- Three Property Tax Levies Used for Operations
- Primary Focus of State Equalization Efforts
- Equalization Occurs by How State Funding is Allocated to Programs:
 - Basic School Program
 - Voted & Board Local Levy Programs

Equalization of Property Tax Levies for Operations
Basic, Voted, & Board Levies | Equalized at State Guarantee Rate
Estimated FY 2016 Property Tax Revenue: \$1.03 Billion
State Equalization Funding: \$2.31 Billion Education Fund (Not Included)



Fully Equalized: The Basic Levy & The Basic School Program

The Basic Levy

- Basic Levy Generates a Targeted Revenue Amount
- Uniform Rate Statewide
- Legislature Approves Target Revenue & Estimate Rate
- State Tax Commission Sets Final Rate

S.B. 1

Enrolled Copy

This bill provides a special effective date.

Utah Code Sections Affected:

AMENDS:

53A-17a-135, as last amended by Laws of Utah 2014, Chapter 4

Uncodified Material Affected:

ENACTS UNCODIFIED MATERIAL

Be it enacted by the Legislature of the state of Utah:

Section 1. Section **53A-17a-135** is amended to read:

53A-17a-135. Minimum basic tax rate -- Certified revenue levy.

(1) (a) In order to qualify for receipt of the state contribution toward the basic program and as its contribution toward its costs of the basic program, each school district shall impose a minimum basic tax rate per dollar of taxable value that generates [~~\$296,709,700~~] \$305,172,300 in revenues statewide.

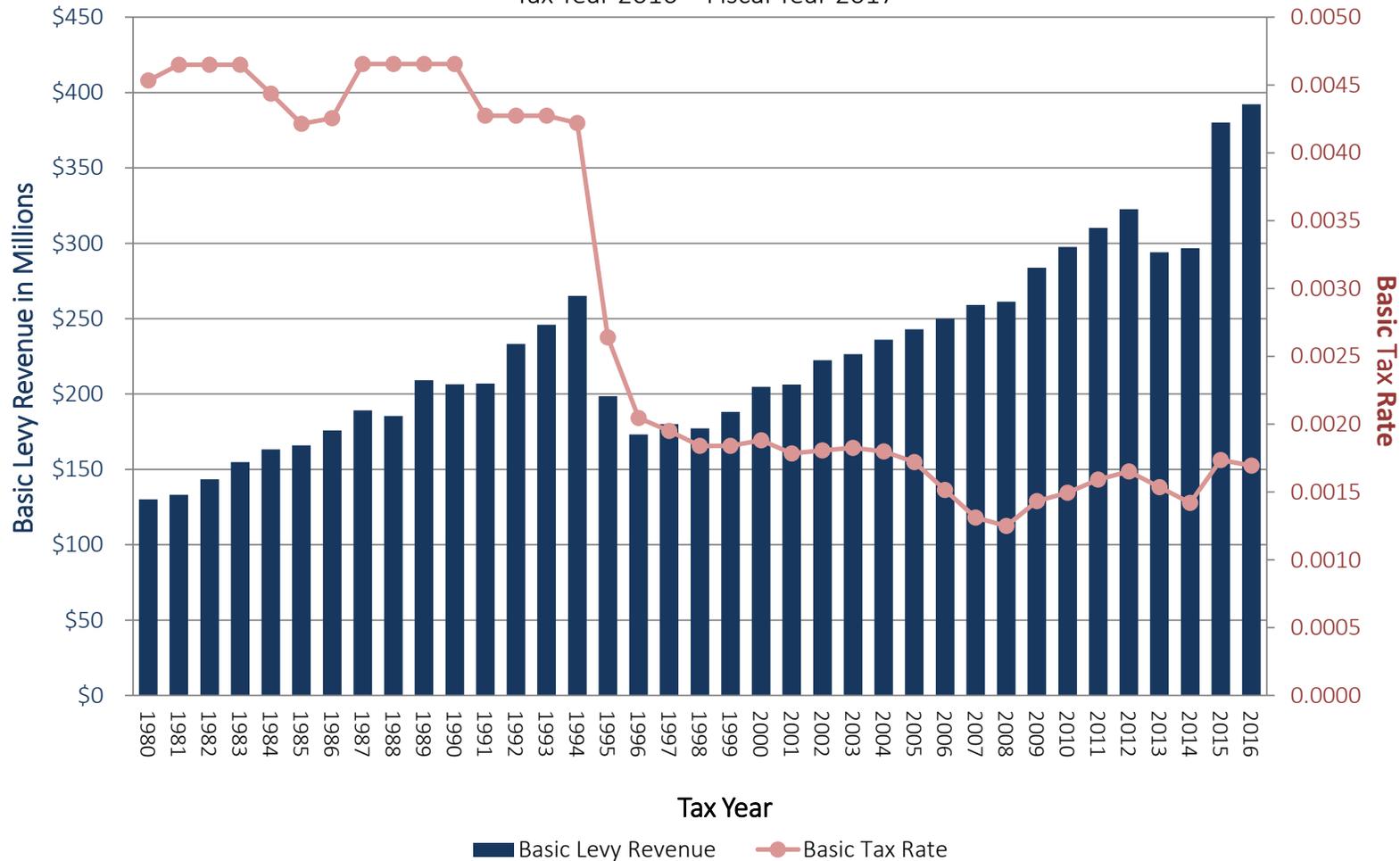
(b) The preliminary estimate for the [~~2014-15~~] 2015-16 minimum basic tax rate is [~~.001477~~] .001416.

(c) The State Tax Commission shall certify on or before June 22 the rate that generates [~~\$296,709,700~~] \$305,172,300 in revenues statewide.

Basic Property Tax Levy

Basic School Program - Basic Levy
Total Levy Revenue & Tax Rate - Tax Years 1980-2016 Est.

Tax Year 2016 = Fiscal Year 2017



Source: Utah State Office of Education, Finance & Statistics Section
Prepared by: Office of the Legislative Fiscal Analyst.



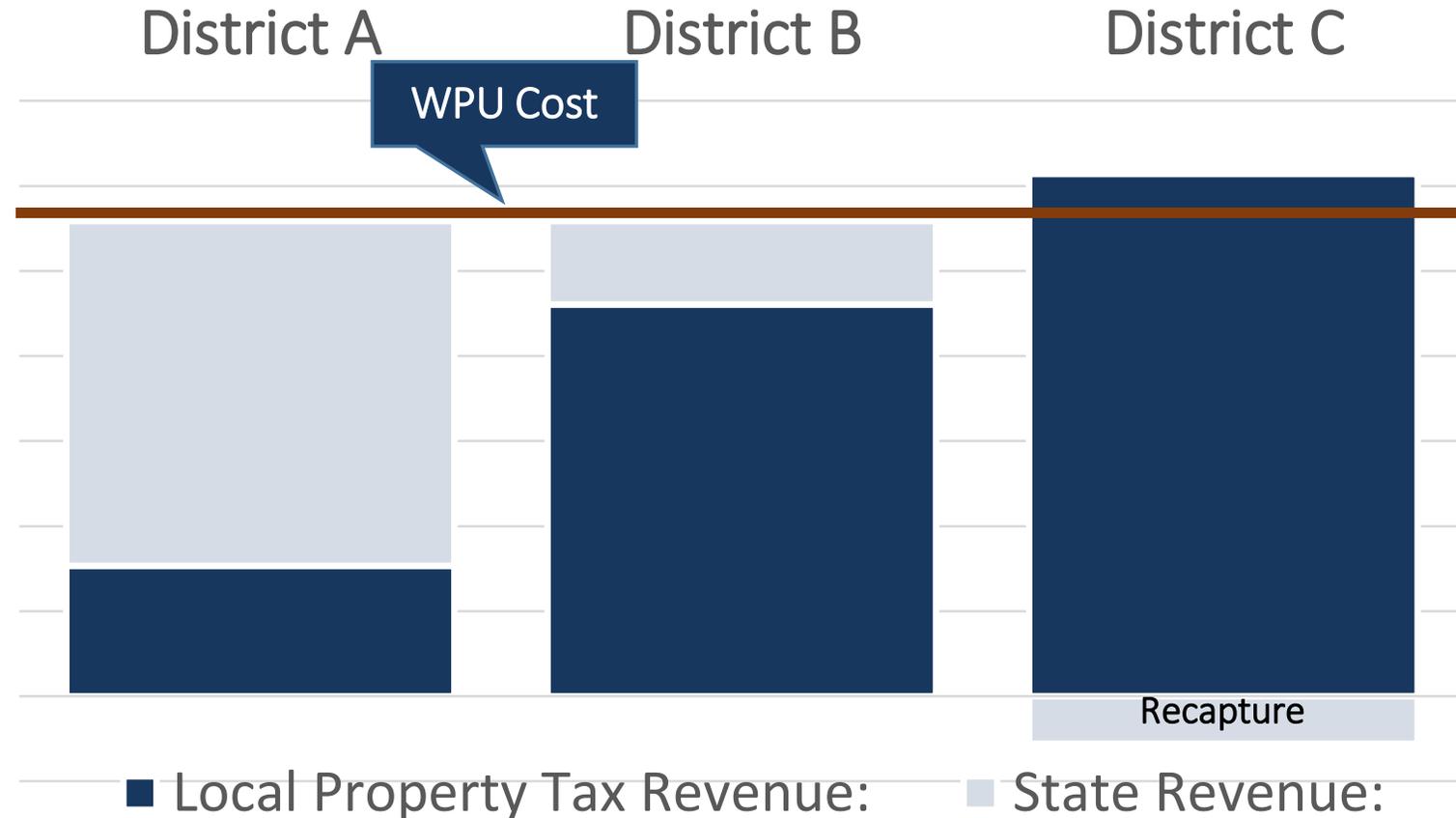
The Basic School Program

- Utah's Foundation Program
- 12 Statutory Guaranteed Sub-Programs
- The Weighted Pupil Unit (WPU)
 - Common Factor to Determine Cost & Distribute Revenue
 - 1 ADM Student = 1 WPU
 - Primary Count vs. Add-on/Weightings
- WPU Value
 - \$3,184 in FY 2017
 - $WPUs \times WPU \text{ Value} = \text{Program Cost}$

How Equalization Works: Basic School Program

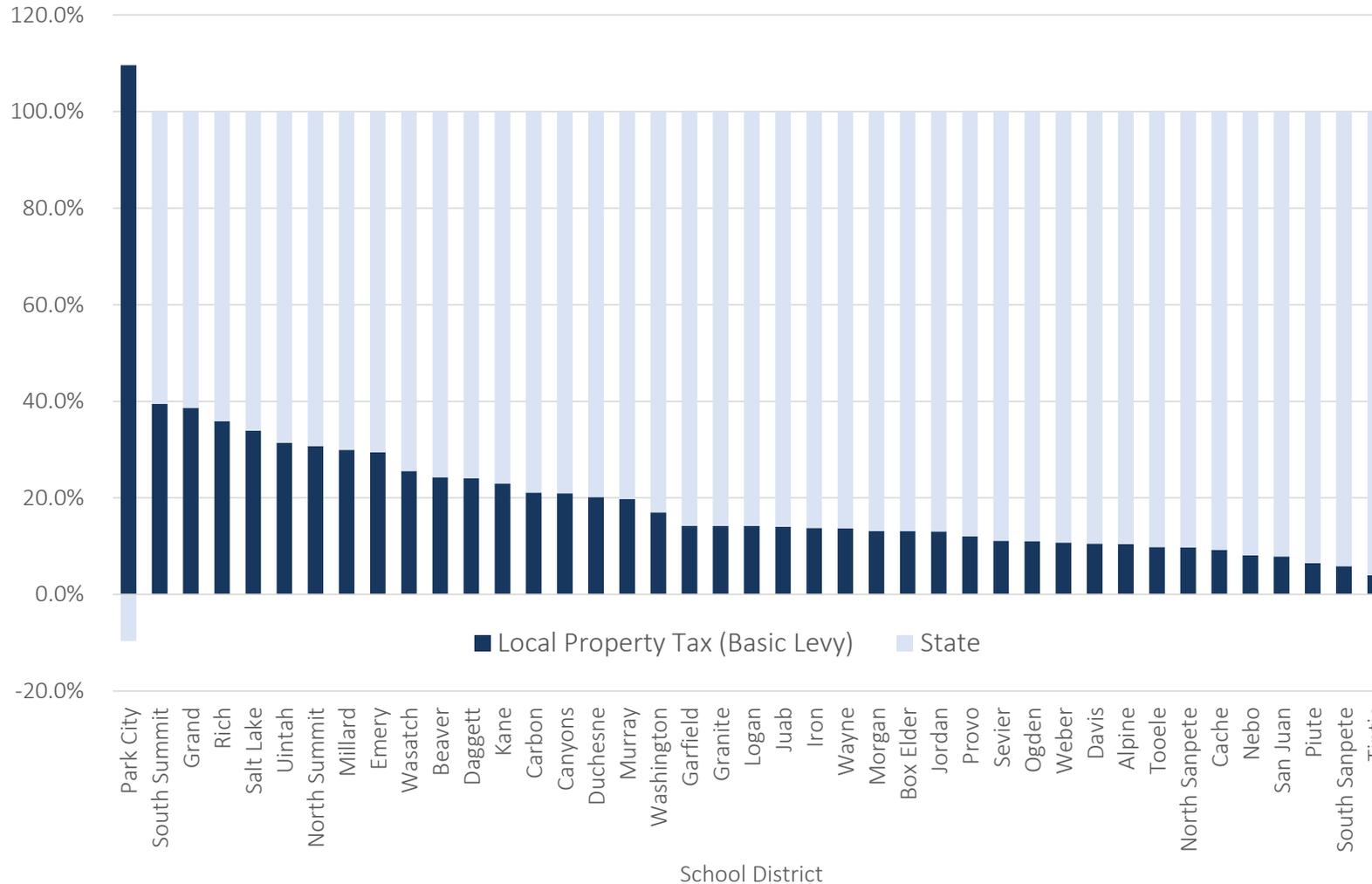
Example: 3
Hypothetical
School Districts

- Same Number of WPUs
- Same WPU Value
- Same Basic Rate
- Different Taxable Value



Basic School Program – Funding Equalization

Public Education: Minimum School Program - Basic School Program
 Percent of State and Local Revenues Contributing to Total WPU Cost by School District
 FY 2016 - Estimated



Local Levy Guarantee Programs for Operations

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Voted and Board Guarantee Programs

Voted Local Levy

Subsection 53A-17a-133(4)(a)

“In addition to the revenue a school district collects from the imposition of a levy pursuant to [Section 53A-17a-133] , the state shall contribute an amount sufficient to guarantee \$35.55 per weighted pupil unit for each .0001 of the first .0016 per dollar of taxable value.”

Board Local Levy

Subsection 53A-17a-164(3)(a)

“In addition to the revenue a school district collects from the imposition of a levy pursuant to this section, the state shall contribute an amount sufficient to guarantee that each .0001 of the first .0004 per dollar of taxable value generates an amount equal to the state guarantee per weighted pupil unit described in Subsection 53A-17a-133(4).”

Subsection 53A-17a-133(4)(b):

“The same dollar amount guarantee per weighted pupil unit for the .0016 per dollar of taxable value under Subsection (4)(a) shall apply to the portion of the board local levy authorized in Section 53A-17a-164, so that the guarantee shall apply up to a total of .002 per dollar of taxable value if a school district levies a tax rate under both programs.”

Voted and Board Local Levy Guarantee

- Voted guarantees the guaranteed amount for 16 increments of .0001 versus 4 increments for the Board Local Levy Guarantee
- For fiscal year 2017:
 - \$617/WPU maximum for the Voted Local Levy guarantee
 - \$154.25/WPU maximum for the Board Local Levy guarantee

Voted Levy Guarantee Example

Hypothetical School District

Fiscal year 2016 guarantee amount: **\$35.55/ .0001** increment

Total Assessed Value: **\$2,000,000,000**

Voted Local Levy Rate: **.0010**
WPU's: **10,000**

Minimum guaranteed revenue for district

Guarantee amount X # increments .0001 X
WPU's

$$\$35.55 \times 10 \times 10,000 = \$3,555,000$$



Revenue received through voted local levy

Voted Local Levy Rate X Total Assessed
Value

$$.0010 \times \$2,000,000,000 = \$2,000,000$$



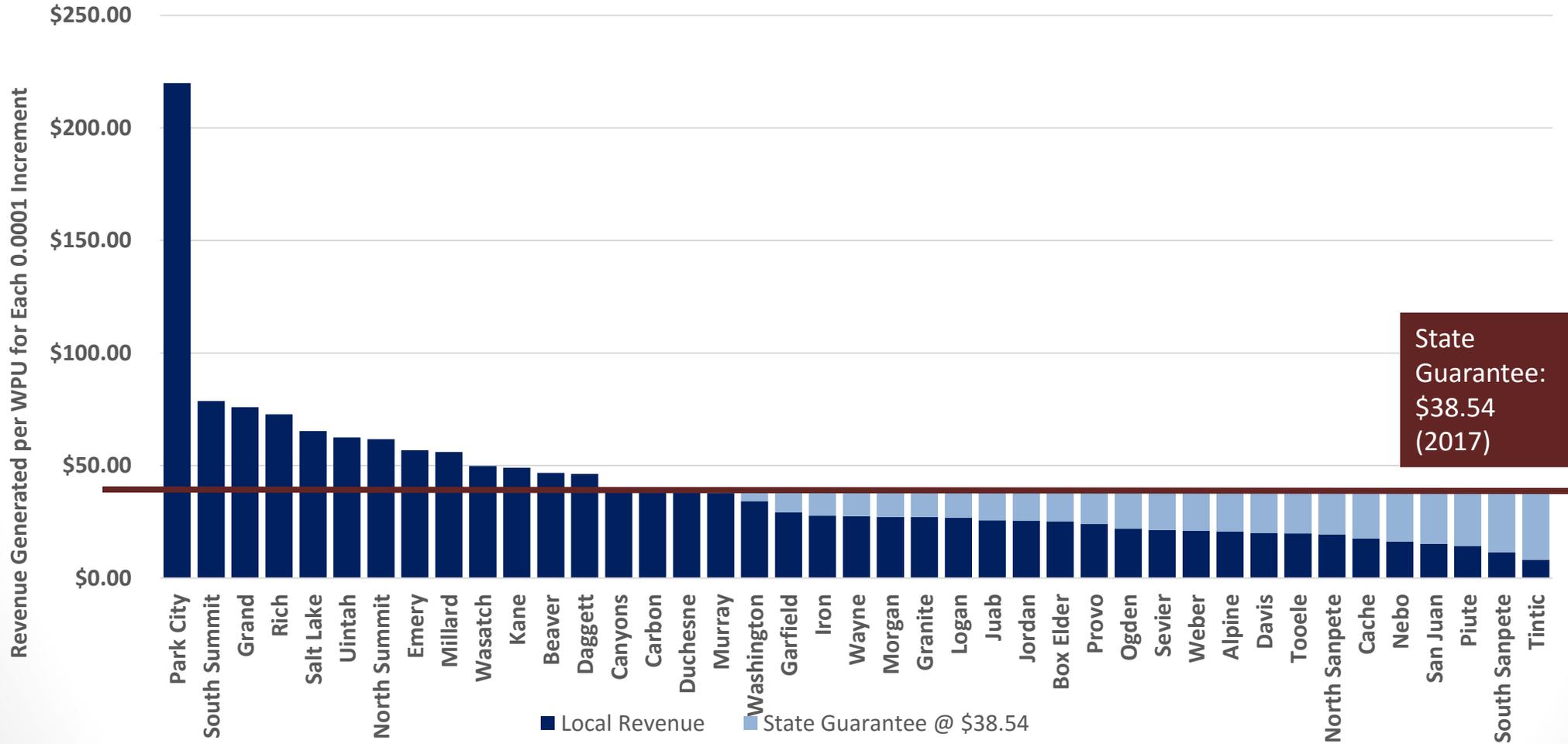
Income tax funded guarantee amount

Minimum guaranteed revenue – Revenue
received through voted local levy

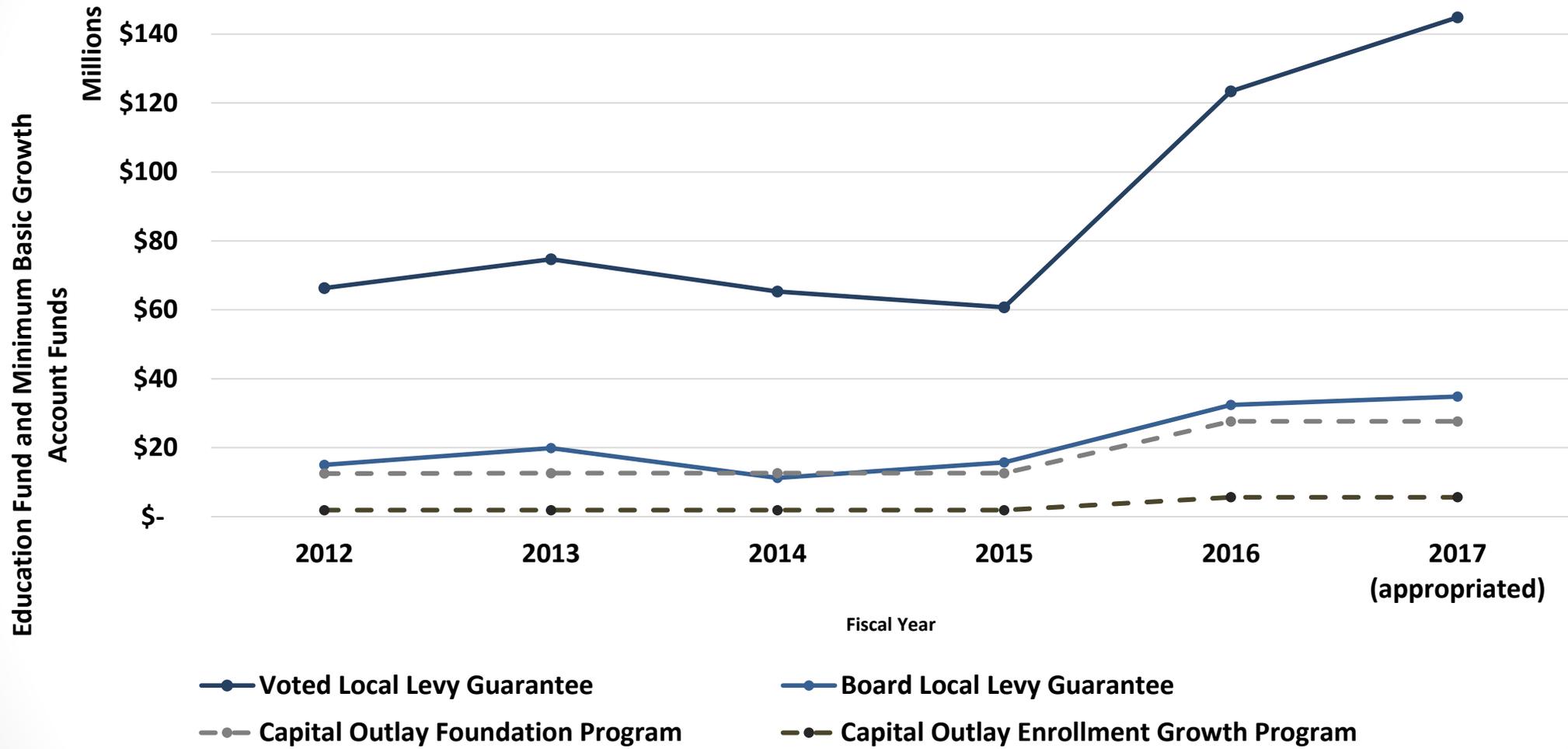
$$\$3,555,000 - 2,000,000 = \$1,555,000$$

Voted and Board Local Levy Programs – Impact of the State Guarantee Rate

Estimated Local Property Tax Revenue Generated per Tax Increment (0.0001) per Weighted Pupil Unit and Impact of the State Guarantee of \$38.54 per Weighted Pupil Unit



Appropriations History for Local Levy Guarantee Programs



Capital Guarantee Programs

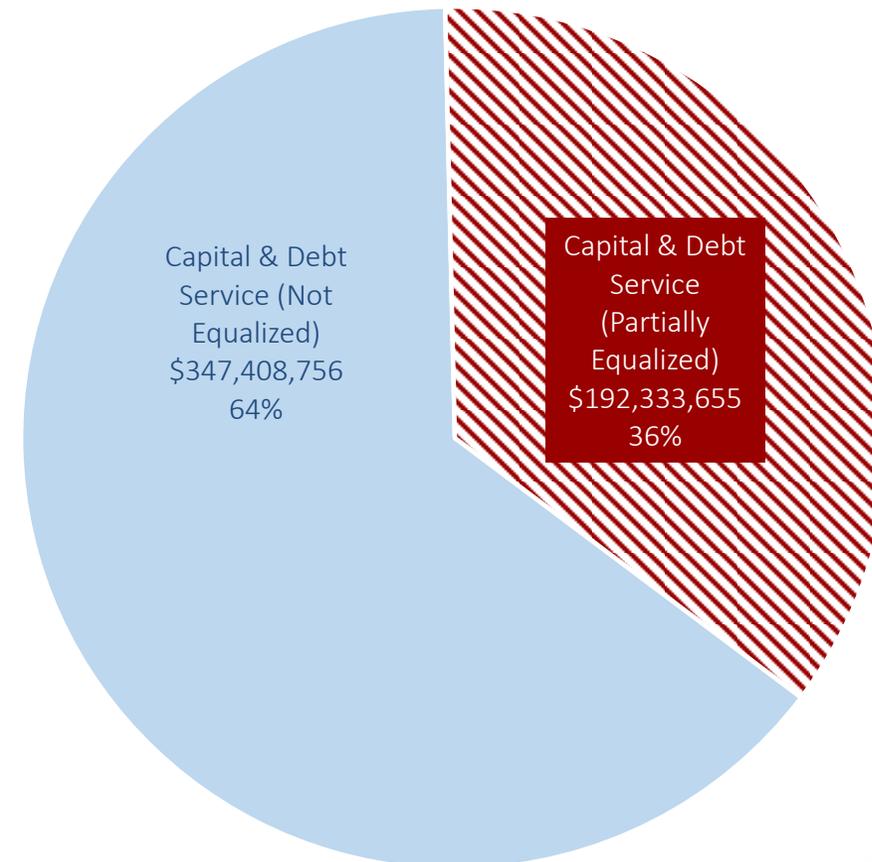
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Equalization in Practice: Property Taxes for Capital

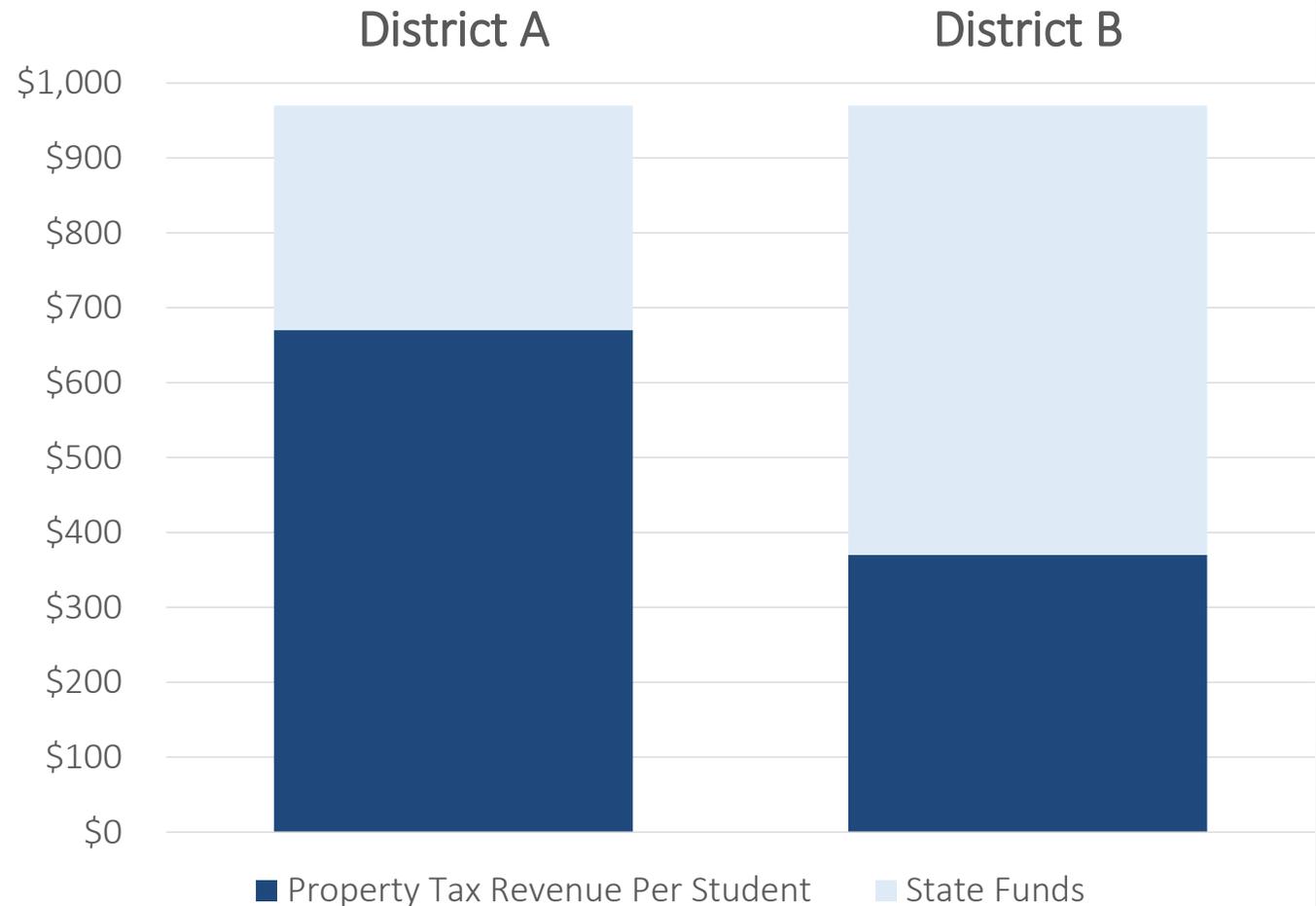
- Two Property Tax Levies Used for Capital Outlay
- Less Robust
- Equalization Occurs Through Two State Programs:
 - Capital Outlay Foundation
 - Capital Outlay Enrollment Growth

Equalization of Property Tax Levies for Capital Outlay
Capital & Debt Service Levies | Equalized at Foundation Rate
Estimated FY 2016 Property Tax Revenue: \$539.7 Million
State Equalization Funding: \$33.2 Million Education Fund (Not Included)



Capital Outlay Foundation: Partial Equalization

- To Qualify:
 - Tied to Tax Rate – “Combined Capital Levy Rate”
 - Combined Rate Greater or Equal to The “Base Tax Effort Rate”
 - Amount Received = Difference of Local Revenue Generated & Foundation Rate per ADM
 - Base Level Funding for Districts with Less than 1,000 Students



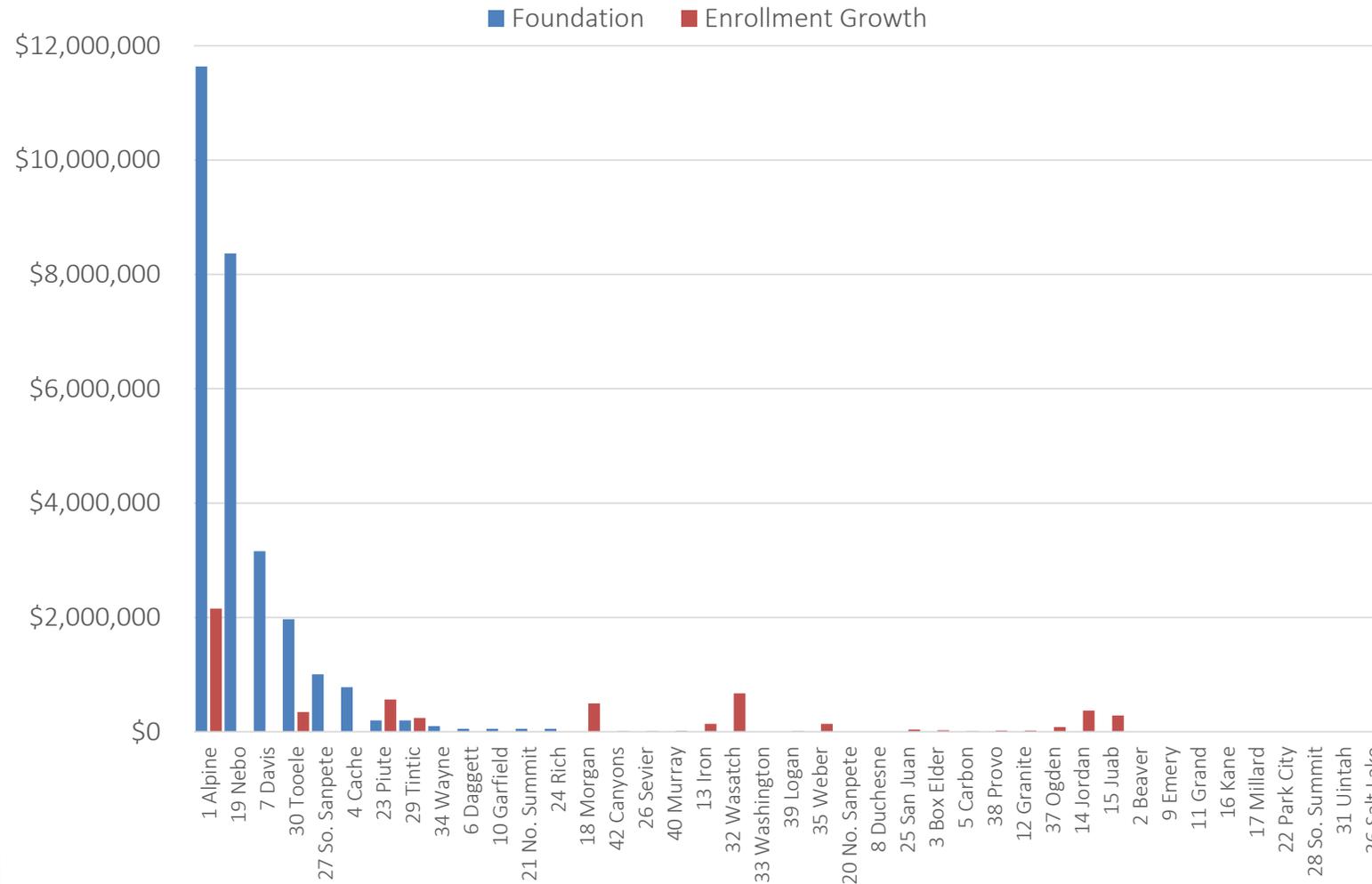
Capital Outlay Enrollment Growth: Equity Supplement

- Not Tied to a Tax Rate
- To Qualify:
 - Average Annual Net Enrollment Increase
 - Property Tax Base per ADM Less than 2x State Average
- Allocation of State Funding:
 - Proportional Based on Percent of Qualifying District Enrollment Increase Over the Statewide Average Enrollment Increase

School Building Program – Distribution

Capital Outlay Foundation & Enrollment Growth Programs

Qualifying School Districts - FY 2016



Recent Related Legislation

- SB 97, Property Tax Equalization Amendments (2015 GS)
 - Increased Basic Levy Revenue by \$75 M
 - “Freed-up” State Funds - \$75 M Education Funds Distributed to:
 - 75% to Increase the Voted & Board State Guarantee
 - 20% to CO Foundation
 - 5% to CO Enrollment Growth
- SB 38, School Funding Amendments (2016 GS)
 - Changed the Charter School Local Replacement Formula
 - Added State Funding for “Guarantee Programs” to the Formula
 - Voted & Board
 - Capital Outlay
 - Increases/Decreases in State Guarantee Funds will Impact Rate (2-year Lag)

Questions for Legislative Consideration

- To what extent should educational resources be similar for similarly situated students statewide?
- With what revenue sources should schools be funded, and in what proportion?
- Should the legislature pursue further equalization? If so, how, and with what revenue?



Please feel free to contact any member of the education team with questions

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