Property Tax & School Funding Equalization in Utah: Funding K-12 Schools

Prepared for:

Bagels and Briefings for Legislators
August 18, 2010
Presentation Outline

• Basic indicators of school funding needs
• Overview of property tax & school funding sources
  – Tax base
  – Tax rates
  – Tax revenues
• Minimum school program equalization
  – Basic program
  – Related to basic program
  – Board and voted leeway guarantees
• Capital outlay equalization
Why Do School Districts Impose Property Taxes?

• To understand property taxes, it is helpful to initially consider why school districts impose the property tax

• Basic answer is to provide revenue to meet school funding needs
  – However, different definitions of funding “needs” exist
  – What are some basic measures of funding needs?
Basic Measures of School Funding Needs

Total Enrollment - 2009

Data Source: Utah State Office of Education
Basic Measures of School Funding Needs

Enrollment Growth - 2009

Data Source: Utah State Office of Education
Other Potential Measures of School Funding Needs

- Different types of students
  - Special education
  - English language learner
  - Gifted and talented
  - Low income
- Transportation / travel distance to school
- Capital infrastructure
  - Buildings (age, size, functionality, etc.)
  - Technology
- Other
Distribution of Needs and Tax Bases

• School needs, however defined, will not match up with the tax base of any revenue source on a geographic basis (school-by-school or district-by-district)

• Examples:
  – Unlike Utah, some states have a local option income tax in certain municipalities. What if Utah had a local option income tax for schools? The distribution of Utah’s income tax base would not align with the distribution of the student population (one basic measure of school need).
  – Utah does allow school districts to impose property tax. The distribution of the property tax base is not identical to the distribution of the student population (or of the income tax base).
Property Tax
A Major Component of Utah’s State and Local Government Tax System

Corporate income tax (state)
$0.3B 3%

Individual income tax (state)
$2.1B 26%

Transportation tax (state)
$0.35B 4%

Other state
$0.25B 3%

Other local
$0.1B 2%

Property tax (local)
$2.5B 31%

Sales tax (state & local)
$2.5B 31%

Data Source: Utah State Tax Commission

FY 2010
Utah Property Taxes Over Time, by Purpose

Data Source: Utah Foundation, Utah State Tax Commission
Property Tax by Taxing Entity Type
Tax Year 2009

Data Source: Utah State Tax Commission
School Property Tax Types as a Percent of Total Property Tax

- County: 18%
- City & Town: 14%
- Special / Local: 14%
- School - Basic levy: 12%
- School - Other M&O: 17%
- School - Other: 3%
- School - Capital Outlay: 22%

Data Source: Utah State Tax Commission, State Office of Education
How is Utah Public Education Funded?

Major Revenue Sources:
- State revenue – mostly income taxes ($2.35 billion)
- Property taxes ($1.25 billion)
- Federal funds ($0.55 billion)
- Other local revenue ($0.35 billion)

FY 2009

Data source: Utah State Office of Education
Major Revenue Sources by District

Data Source: Utah State Office of Education
Some school districts have greater ability than others to generate revenue through property tax
- Measures of school funding needs (such as student populations) and property values do not align geographically

Why do school district property tax bases vary?
- Overall fair market value differences in different areas
- Different mix of property types (commercial, residential, agricultural, etc.) tend to have different values
- Exemption / valuation differences among property types
  - Primary residences receive 45% exemption, so 55% of value is taxable
  - Certain agricultural properties valued based on agricultural use, not fair market value

Charter schools have no property tax base and cannot impose a property tax
Impact of Property Tax Base on Property Tax Revenues

Suppose 3 school districts each need to raise $1 million per year. The districts each have a different tax base from which to generate the $1 million. To generate the same amount of total revenue, a taxpayer with an identically valued home in District A will pay five times the amount of tax the taxpayer in District C pays, because District C is able to generate the same revenue at a lower tax rate due to its larger tax base.

<table>
<thead>
<tr>
<th></th>
<th>District A</th>
<th>District B</th>
<th>District C</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax Base</td>
<td>$1,000,000,000</td>
<td>$2,000,000,000</td>
<td>$5,000,000,000</td>
</tr>
<tr>
<td>Needed Revenue</td>
<td>$1,000,000</td>
<td>$1,000,000</td>
<td>$1,000,000</td>
</tr>
<tr>
<td>Rate Required to Generate Revenue</td>
<td>0.001000</td>
<td>0.000500</td>
<td>0.000200</td>
</tr>
<tr>
<td>Tax impact on $250,000 primary residence</td>
<td>$138</td>
<td>$69</td>
<td>$28</td>
</tr>
</tbody>
</table>

Because school districts have different sized tax bases and varying numbers of students to serve, it can be difficult to directly compare taxing capacity among school districts. One method of comparison is to compute the tax base per enrolled student.

<table>
<thead>
<tr>
<th></th>
<th>District A</th>
<th>District B</th>
<th>District C</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Enrollment</td>
<td>8,000</td>
<td>4,000</td>
<td>2,000</td>
</tr>
<tr>
<td>Tax Base per Enrolled Student</td>
<td>$125,000</td>
<td>$500,000</td>
<td>$2,500,000</td>
</tr>
</tbody>
</table>
School District Property Tax Levies

- **Operations Levies**
  - Basic levy
  - Voted leeway
  - Board leeway
  - K-3 reading

- **10% of basic levy**
  - 10% of basic levy can be used both for certain operations purposes (textbooks and supplies) and for capital outlay / certain debt service purposes

- **Capital Outlay & Debt Service Levies**
  - Debt service
  - Capital outlay
  - Voted capital outlay (not currently imposed)

- **Other Levies**
  - Special transportation
  - Recreation
  - Judgment
  - Tort Liability
  - Public Law 81-874 - Federal impact aid / Title VII (not currently imposed)
Utah School District Property Tax Rates

Data Source: Utah State Office of Education

Tax Year 2009

Property Tax Rate

Basic Levy
Capital Outlay / Debt Service
M&O Other Than Basic
Other

Tintic
Nebo
Tooele
S Sanpete
Box Elder
San Juan
Ogden
Juab
Alpine
Jordan
Duchesne
Logan
Canyons
Davis
Washington
Beaver
Provo
N Sanpete
Sevier
Cache
Garfield
Grand
Carbon
Uintah
Wasatch
Granite
Salt Lake
Morgan
S Summit
Weber
Iron
Millard
Murray
Emery
N Summit
Daggett
Park City
Kane
Rich
Piute
Wayne

Murray
Rich
Piute
Wayne

Morgan
N Summit
Daggett
Park City
Kane

Salt Lake
Granite
Wasatch
Uintah
Carbon
Grand
Garfield
Cache
Sevier
N Sanpete
Provo
Beaver
Washington
Davis
Canyons
Logan
Duchesne
Jordan
Alpine
Juab
Ogden
San Juan
Box Elder
S Sanpete
Tooele
Nebo
Tintic

Basic Levy
Capital Outlay / Debt Service
M&O Other Than Basic
Other

0.000000 0.001000 0.002000 0.003000 0.004000 0.005000 0.006000 0.007000 0.008000 0.009000 0.010000
<table>
<thead>
<tr>
<th>School District</th>
<th>Property Tax Base per Student</th>
<th>Property Tax Rate</th>
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</thead>
<tbody>
<tr>
<td>Park City</td>
<td>0.000000</td>
<td>0</td>
</tr>
<tr>
<td>Rich Daggett</td>
<td>0.001000</td>
<td>0.000500</td>
</tr>
<tr>
<td>Kane</td>
<td>0.002000</td>
<td>0.001000</td>
</tr>
<tr>
<td>South Summit</td>
<td>0.003000</td>
<td>0.001500</td>
</tr>
<tr>
<td>North Summit</td>
<td>0.004000</td>
<td>0.002000</td>
</tr>
<tr>
<td>Wasatch</td>
<td>0.005000</td>
<td>0.002500</td>
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<tr>
<td>Grand</td>
<td>0.006000</td>
<td>0.003000</td>
</tr>
<tr>
<td>Emery</td>
<td>0.007000</td>
<td>0.003500</td>
</tr>
<tr>
<td>Millard</td>
<td>0.008000</td>
<td>0.004000</td>
</tr>
<tr>
<td>Carbon</td>
<td>0.009000</td>
<td>0.004500</td>
</tr>
<tr>
<td>Salt Lake</td>
<td>0.010000</td>
<td>0.005000</td>
</tr>
<tr>
<td>Garfield</td>
<td>0.011000</td>
<td>0.005500</td>
</tr>
<tr>
<td>Murray</td>
<td>0.012000</td>
<td>0.006000</td>
</tr>
<tr>
<td>Wayne</td>
<td>0.013000</td>
<td>0.006500</td>
</tr>
<tr>
<td>Canyons</td>
<td>0.014000</td>
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<tr>
<td>Iron</td>
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<td>0.007500</td>
</tr>
<tr>
<td>Washington</td>
<td>0.016000</td>
<td>0.008000</td>
</tr>
<tr>
<td>Uintah</td>
<td>0.017000</td>
<td>0.008500</td>
</tr>
<tr>
<td>Beaver</td>
<td>0.018000</td>
<td>0.009000</td>
</tr>
<tr>
<td>Morgan</td>
<td>0.019000</td>
<td>0.009500</td>
</tr>
<tr>
<td>Duchesne</td>
<td>0.020000</td>
<td>0.010000</td>
</tr>
<tr>
<td>Provo</td>
<td>0.021000</td>
<td>0.010500</td>
</tr>
<tr>
<td>Juab</td>
<td>0.022000</td>
<td>0.011000</td>
</tr>
<tr>
<td>Granite</td>
<td>0.023000</td>
<td>0.011500</td>
</tr>
<tr>
<td>Logan</td>
<td>0.024000</td>
<td>0.012000</td>
</tr>
<tr>
<td>Ogden</td>
<td>0.025000</td>
<td>0.012500</td>
</tr>
<tr>
<td>Sevier</td>
<td>0.026000</td>
<td>0.013000</td>
</tr>
<tr>
<td>Alpine</td>
<td>0.027000</td>
<td>0.013500</td>
</tr>
<tr>
<td>San Juan</td>
<td>0.028000</td>
<td>0.014000</td>
</tr>
<tr>
<td>Weber</td>
<td>0.029000</td>
<td>0.014500</td>
</tr>
<tr>
<td>North Sanpete</td>
<td>0.030000</td>
<td>0.015000</td>
</tr>
<tr>
<td>Jordan</td>
<td>0.031000</td>
<td>0.015500</td>
</tr>
<tr>
<td>Davis</td>
<td>0.032000</td>
<td>0.016000</td>
</tr>
<tr>
<td>Piute</td>
<td>0.033000</td>
<td>0.016500</td>
</tr>
<tr>
<td>Box Elder</td>
<td>0.034000</td>
<td>0.017000</td>
</tr>
<tr>
<td>Cache</td>
<td>0.035000</td>
<td>0.017500</td>
</tr>
<tr>
<td>Nebo</td>
<td>0.036000</td>
<td>0.018000</td>
</tr>
<tr>
<td>South Sanpete</td>
<td>0.037000</td>
<td>0.018500</td>
</tr>
<tr>
<td>Tintic</td>
<td>0.038000</td>
<td>0.019000</td>
</tr>
<tr>
<td>Tooele</td>
<td>0.039000</td>
<td>0.019500</td>
</tr>
</tbody>
</table>

**Data Source:** Utah State Office of Education
Impact of Differing Tax Rates on $250,000 Primary Residence (2009)

Data Source: Utah State Office of Education

Total Property Tax Rate

Property Tax Base per Student

School District

Park City
Rich
Daggett
Kane
South Summit
North Summit
Wasatch
Grand
Emery
Millard
Carbon
Salt Lake
Garfield
Murray
Wayne
Canyons
Iron
Washington
Uintah
Beaver
Morgan
Duchesne
Provo
Juab
Granite
Logan
Ogden
Sevier
Alpine
San Juan
Weber
North Sanpete
Jordan
Davis
Piute
Box Elder
Cache
Nebo
South Sanpete
Tintic
Tooele

0 500,000 1,000,000 1,500,000 2,000,000 2,500,000 3,000,000

Property Tax Base per Student per Student (L)

Property Tax on $250K Primary Residence (R)
What Does “Equalization” Mean?

- **Tax equalization**
  - Equal tax effort for certain government purposes, such as education

- **Expenditure equalization**
  - Equality of resources provided to educate students

- On both tax side and expenditure side, equalization does not necessarily mean completely identical treatment
  - **Tax**
    - Under the income tax, taxpayers with identical income may be able to claim different amounts of tax credits and pay different tax. However, any particular taxpayer is subject to the identical tax amount no matter where in the state that taxpayer lives.
    - Under the property tax, each property owner does not pay an identical amount. Property tax varies based on property value. However, properties are taxed at the same rate, no matter where located.
  - **Expenditure**
    - Similarly situated students funded similarly, no matter where located in state

Data Source: Utah State Office of Education
Components of the Minimum School Program

Voted and Board Leeway - State Funds
$57,928,148

Related to Basic School Program - State Funds
$623,701,302

Related to basic program - fully equalized through income tax & program allocations

Basic School Program - State Funds
$1,646,171,936

Basic program - fully equalized through income tax, property tax, & WPU allocation

Voted & board leeway program - partially equalized through income tax, property tax, & guarantee allocation

Voted and Board Leeway - Property Tax
$310,463,914

Basic School Program - Property Tax (Basic Levy)
$273,950,764

FY 2011
$2.912 billion

Data source: Office of the Legislative Fiscal Analyst
Basic Program

• The basic program (the largest component of the minimum school program) is fully equalized on both the tax side and the expenditure side

• Tax = Uniform basic levy & income tax

• Expenditure = WPU allocation methodology
Basic Program
Two Hypothetical School Districts

<table>
<thead>
<tr>
<th></th>
<th>District A</th>
<th>District B</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value of WPU</td>
<td>$2,500</td>
<td>$2,500</td>
</tr>
<tr>
<td>WPUs</td>
<td>1,000</td>
<td>1,000</td>
</tr>
<tr>
<td>Basic program statutory entitlement</td>
<td>$2,500,000</td>
<td>$2,500,000</td>
</tr>
<tr>
<td>Net Taxable Value (Property Tax Base)</td>
<td>$1,500,000,000</td>
<td>$500,000,000</td>
</tr>
<tr>
<td>Basic levy (Tax Rate)</td>
<td>0.001500</td>
<td>0.001500</td>
</tr>
<tr>
<td>Basic Levy Yield (Property Tax Revenue)</td>
<td>$2,250,000</td>
<td>$750,000</td>
</tr>
<tr>
<td>Allocation from Education Fund</td>
<td>$250,000</td>
<td>$1,750,000</td>
</tr>
</tbody>
</table>

- Under the basic program, each school district and charter school is guaranteed the amount of revenue generated by its number of weighted pupil units (WPUs) multiplied by the value of the WPU.

- Each school district imposes a uniform property tax rate, called the basic levy.

- The state allocates the remaining revenue required to fully fund the statutory WPU allocation, after accounting for revenue generated by the basic levy.

- The state allocates the remaining revenue required to fully fund the statutory WPU allocation, after accounting for revenue generated by the basic levy.
Statewide Basic Program Funding Sources

- Basic Levy (Property Tax)
  - $274 Million
- Education Fund (Income Tax)
  - $1.646 Billion

Data source: Office of the Legislative Fiscal Analyst, FY 2011
Basic Levy History

Data source: Utah State Office of Education
Basic Levy as % of Total School Property Tax

Data source: Utah State Office of Education
(FY 2011)
Voted and Board Leeway Guarantee

Percent of total enrollment at Foundation Guarantee = 72%

Appropation = $57,928,148
0.000100 Tax Yield Guarantee = $25.25 per WPU

Data Source: Utah State Office of Education
Statewide School District Capital Outlay Funding Sources

FY 2009-10

Data source: Utah State Office of Education
Capital Outlay Foundation Program

Foundation Guarantee = $1,029.42 per ADM at 0.0039 Capital-Related Tax Rate
Appropriation = $12,610,900 Percent of total enrollment at Foundation Guarantee = 26%

Data Source: Utah State Office of Education
Theoretical Equalization Continuum

Who should pay for school costs?

<table>
<thead>
<tr>
<th>User Fee</th>
<th>Impact Fee</th>
<th>District-wide Equalization</th>
<th>County-wide Equalization</th>
<th>Statewide Equalization</th>
</tr>
</thead>
<tbody>
<tr>
<td>Only parents of children in schools</td>
<td>Owners of new homes and new businesses</td>
<td>All property owners within school district</td>
<td>All property owners within a county (same as district in all but 7 counties)</td>
<td>Taxpayers statewide</td>
</tr>
</tbody>
</table>

- **User Fee**: Currently prohibited by statute.  
- **Impact Fee**: Discretionary school property tax levies (voted leeway, board leeway, debt service levy, capital outlay levy, etc.).  
- **District-wide Equalization**:  
- **County-wide Equalization**: Partial capital outlay equalization in county of the first class  
- **Statewide Equalization**: Basic levy / basic program, voted & board leeway state funding, educator salary adjustments, state pupil transportation funds
Equalization Questions for Policymakers

• Should school funding be further equalized or not? Should changes be made to existing equalization methodologies?

• If further equalization is desired…
  – What revenue source should be used?
  – Should equalization be done with existing or new revenues?
  – How should funds be allocated?
Please feel free to contact legislative staff with any questions:

Office of Legislative Research and General Counsel

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