

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

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Prepared for:

Bagels and Briefings for Legislators  
August 18, 2010

# Presentation Outline

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- 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

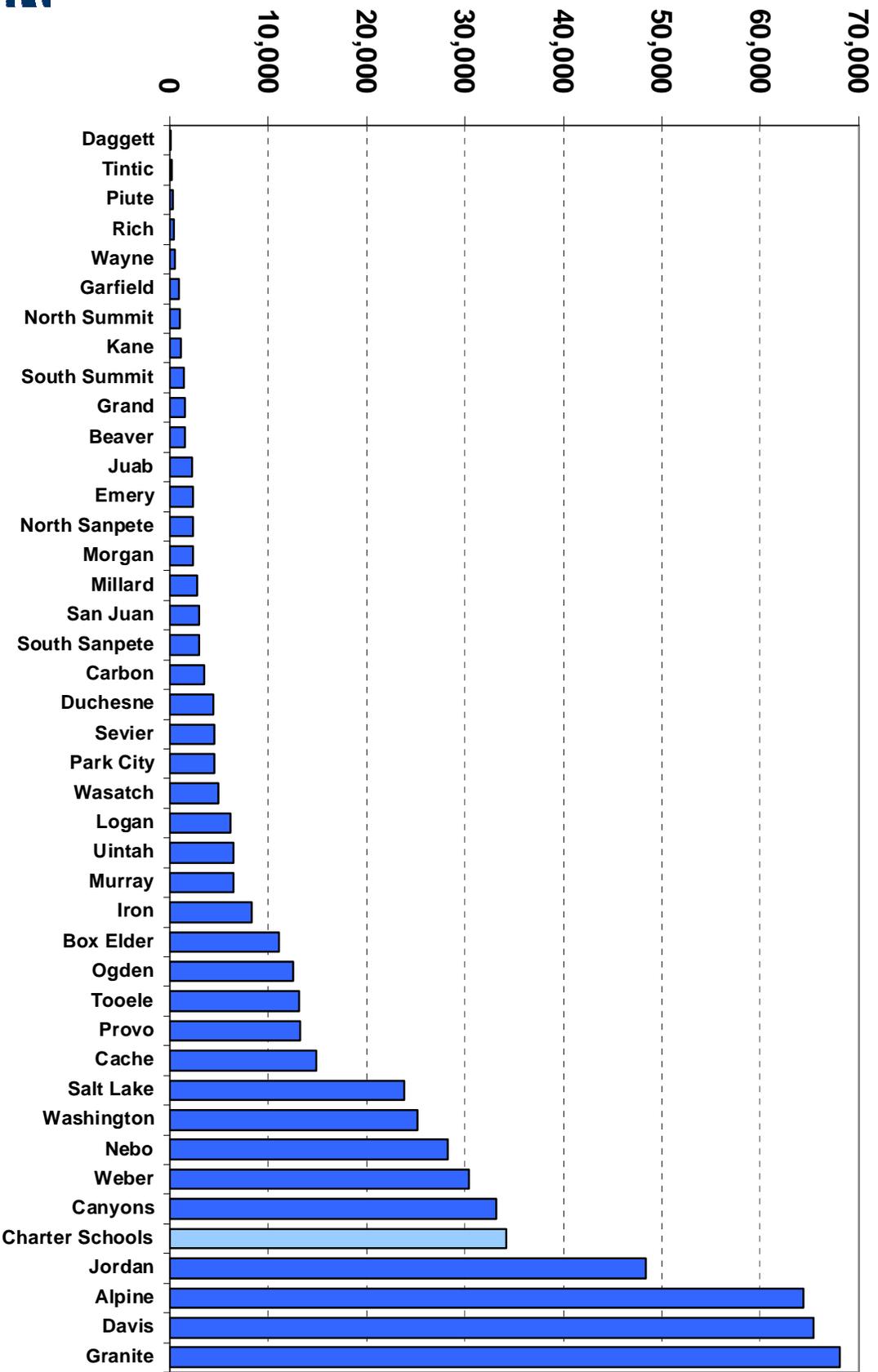
# Why Do School Districts Impose Property Taxes?

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- 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

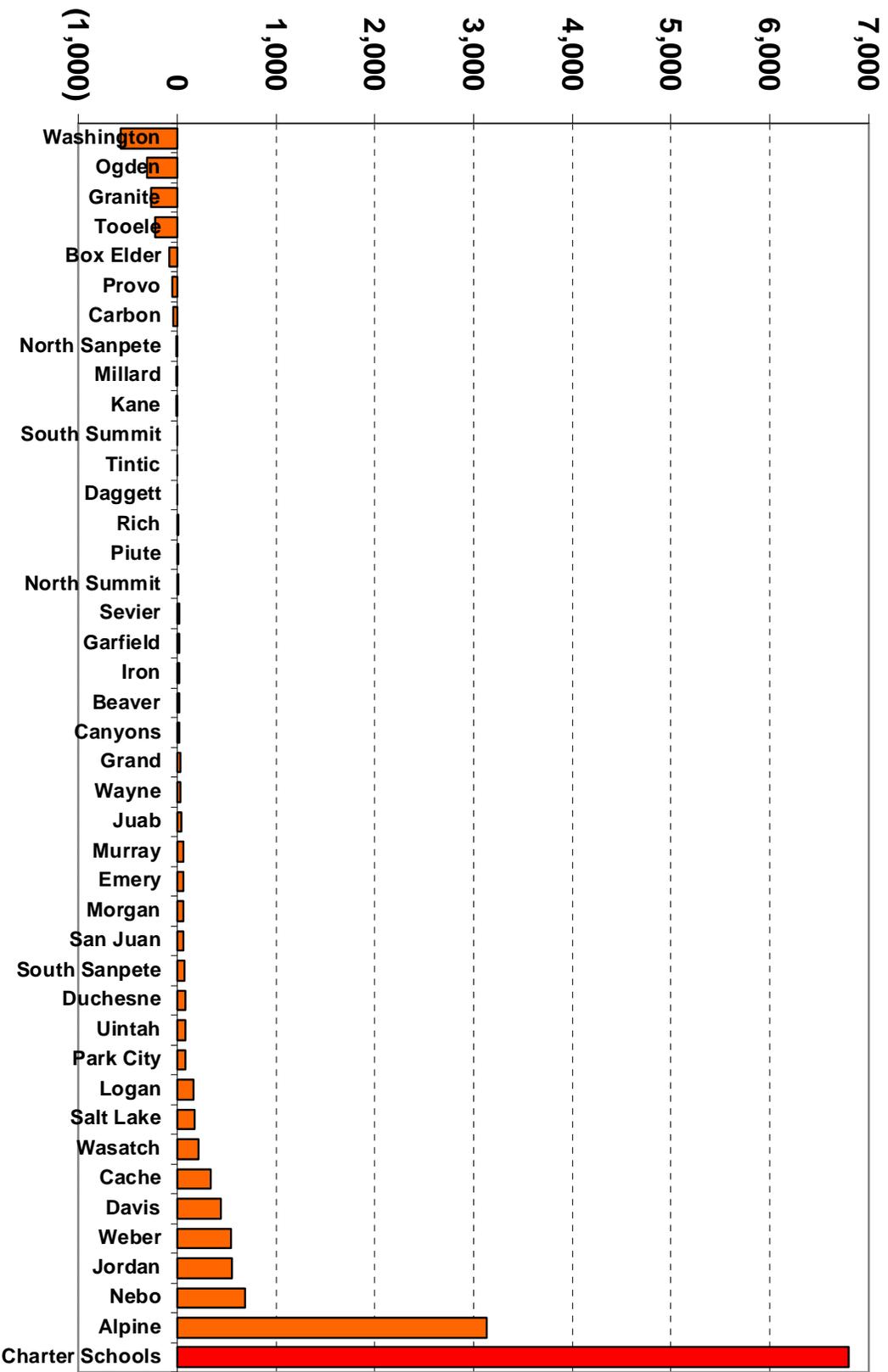
## Total Enrollment - 2009



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

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- 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

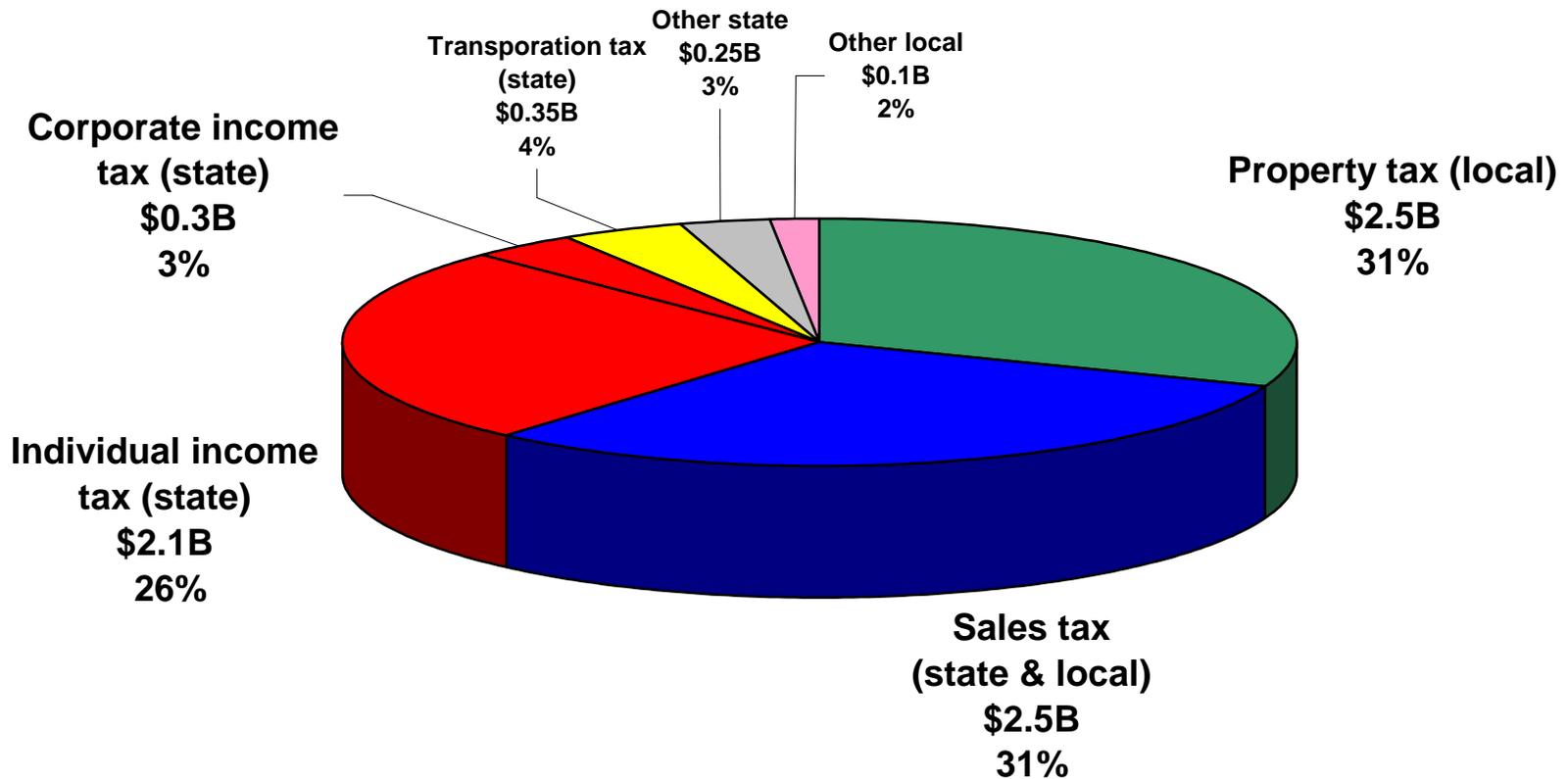
# Distribution of Needs and Tax Bases

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- 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

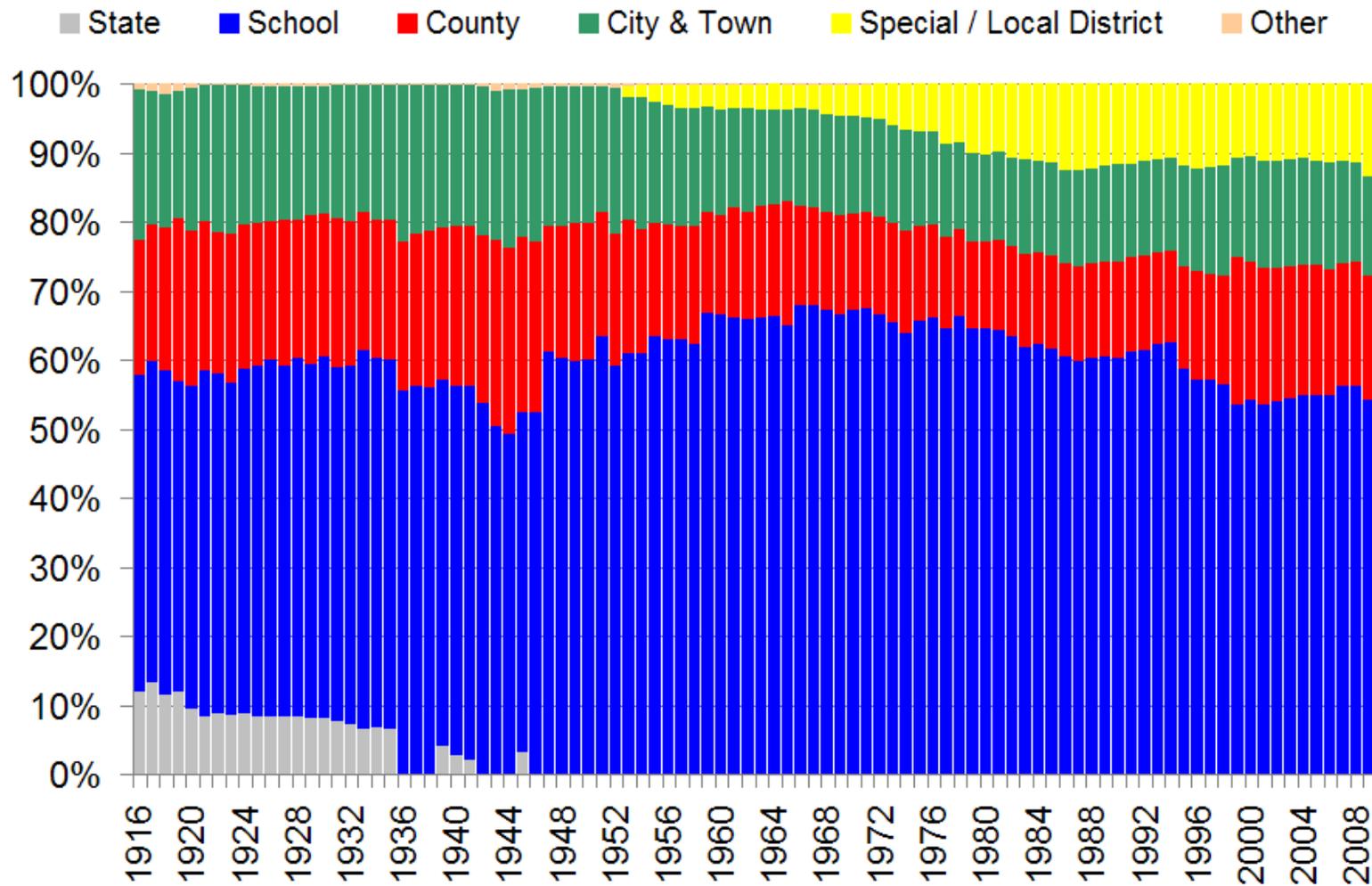


FY 2010



Data Source: Utah State Tax Commission

# Utah Property Taxes Over Time, by Purpose

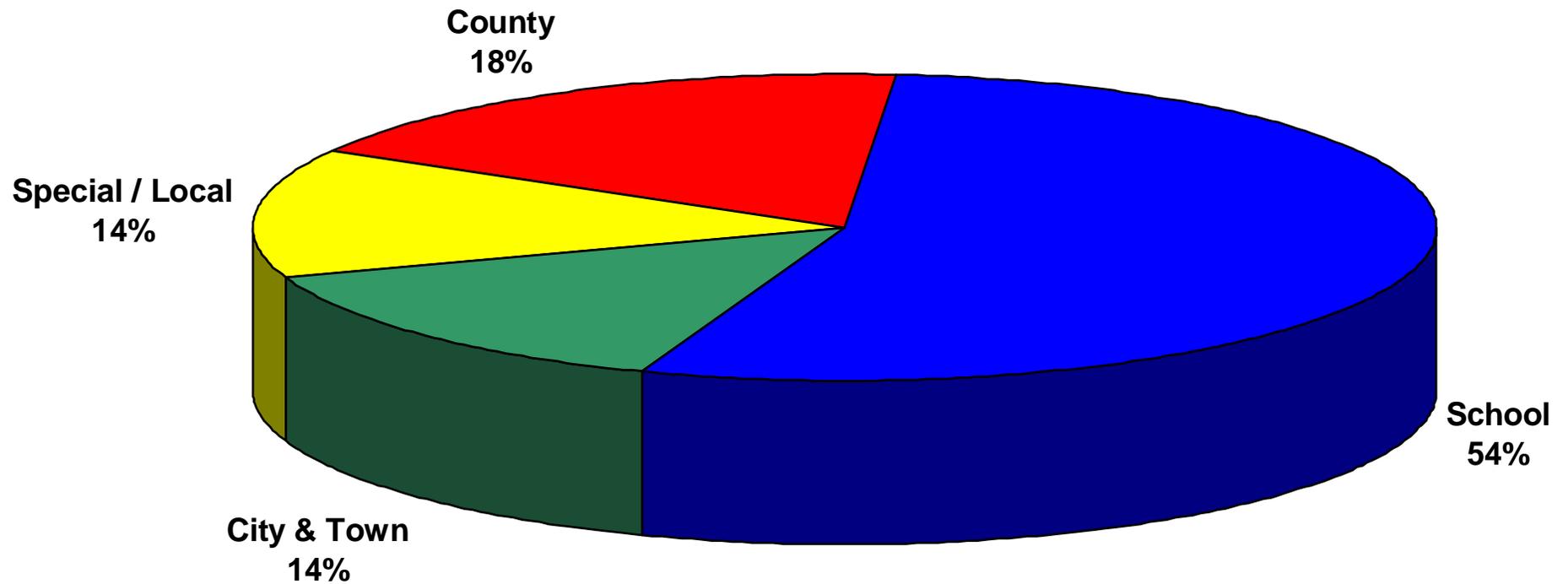


Data Source: Utah Foundation, Utah State Tax Commission



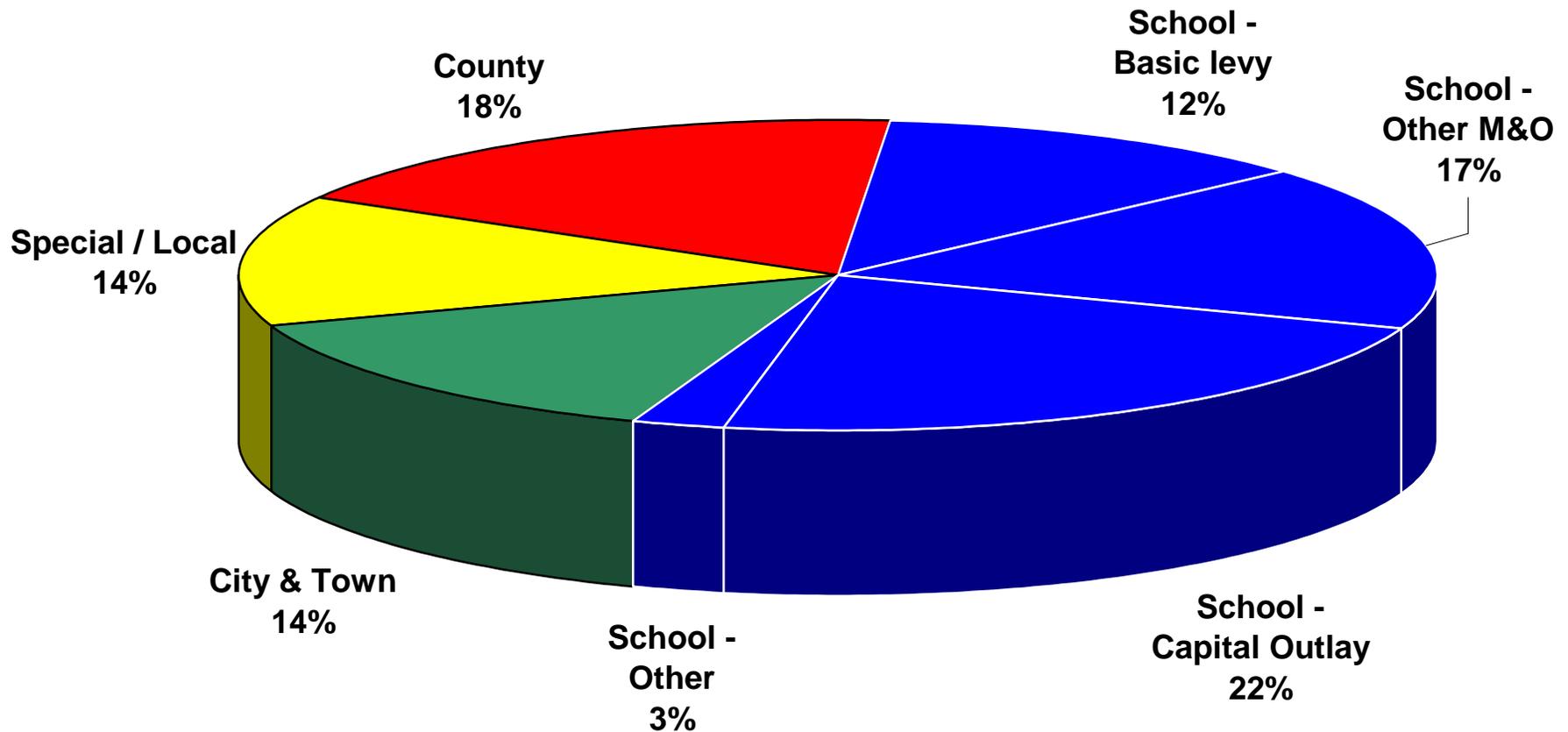
# Property Tax by Taxing Entity Type Tax Year 2009

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# School Property Tax Types as a Percent of Total Property Tax

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# How is Utah Public Education Funded?

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## Major Revenue Sources:

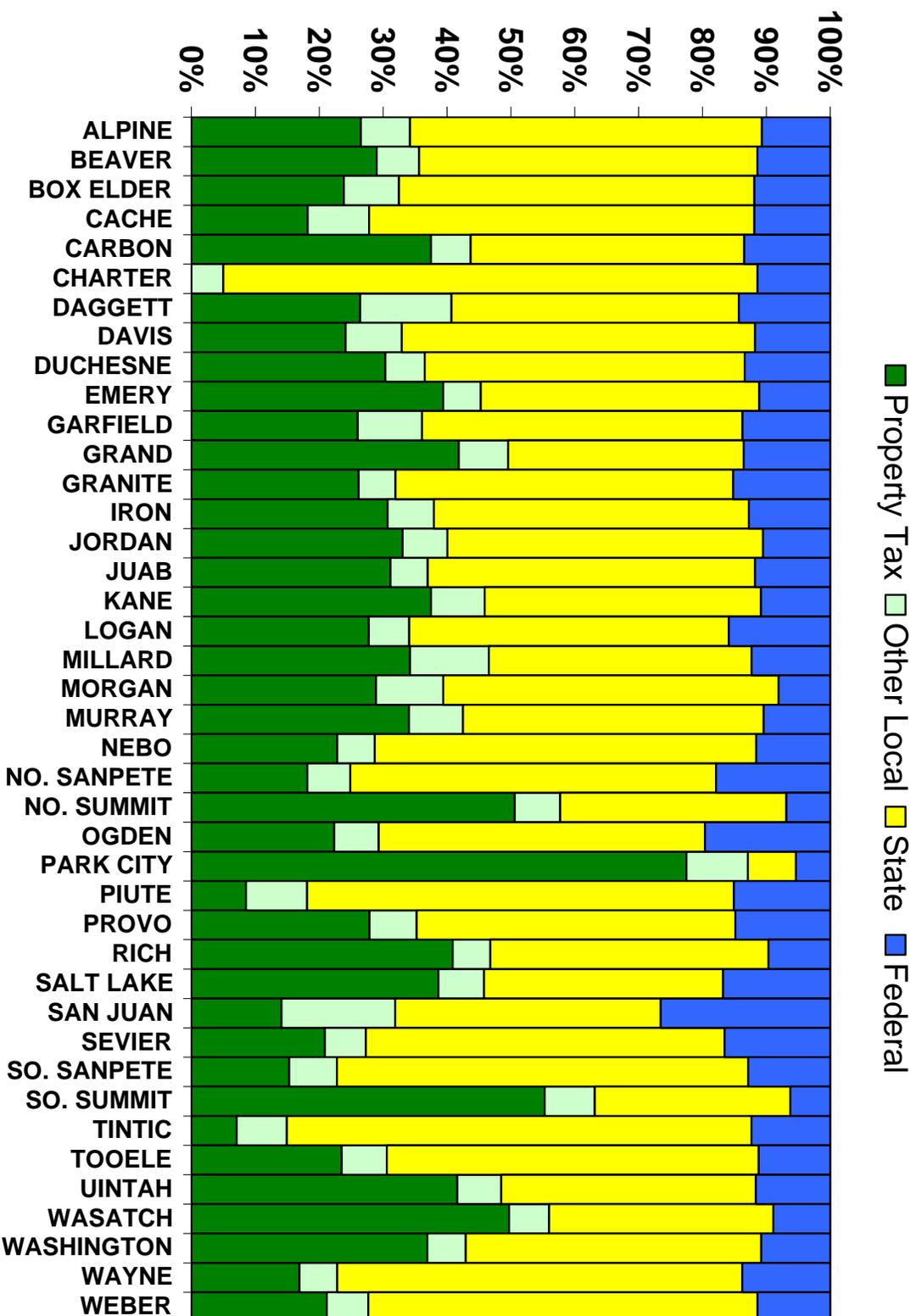
- State revenue – mostly income taxes (\$2.35 billion)
- Property taxes (\$1.25 billion)
- Federal funds (\$0.55 billion)
- Other local revenue (\$0.35 billion)

FY 2009

Data source: Utah State Office of Education



# Major Revenue Sources by District



Data Source: Utah State Office of Education

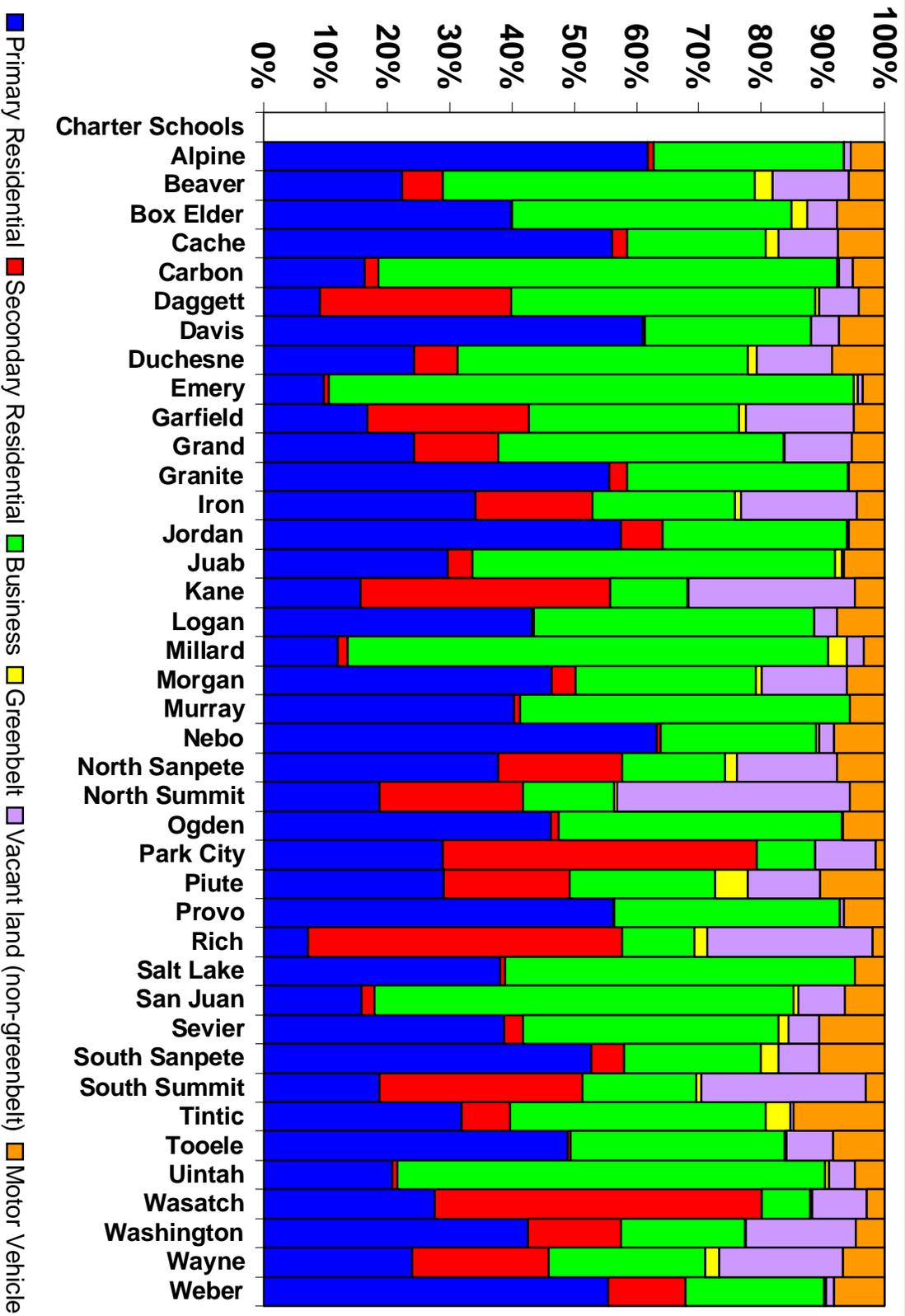


# Property Tax Bases Vary

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- 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

# School District Property Tax Base Composition



Data Source: Utah State Tax Commission

# 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.

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

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.

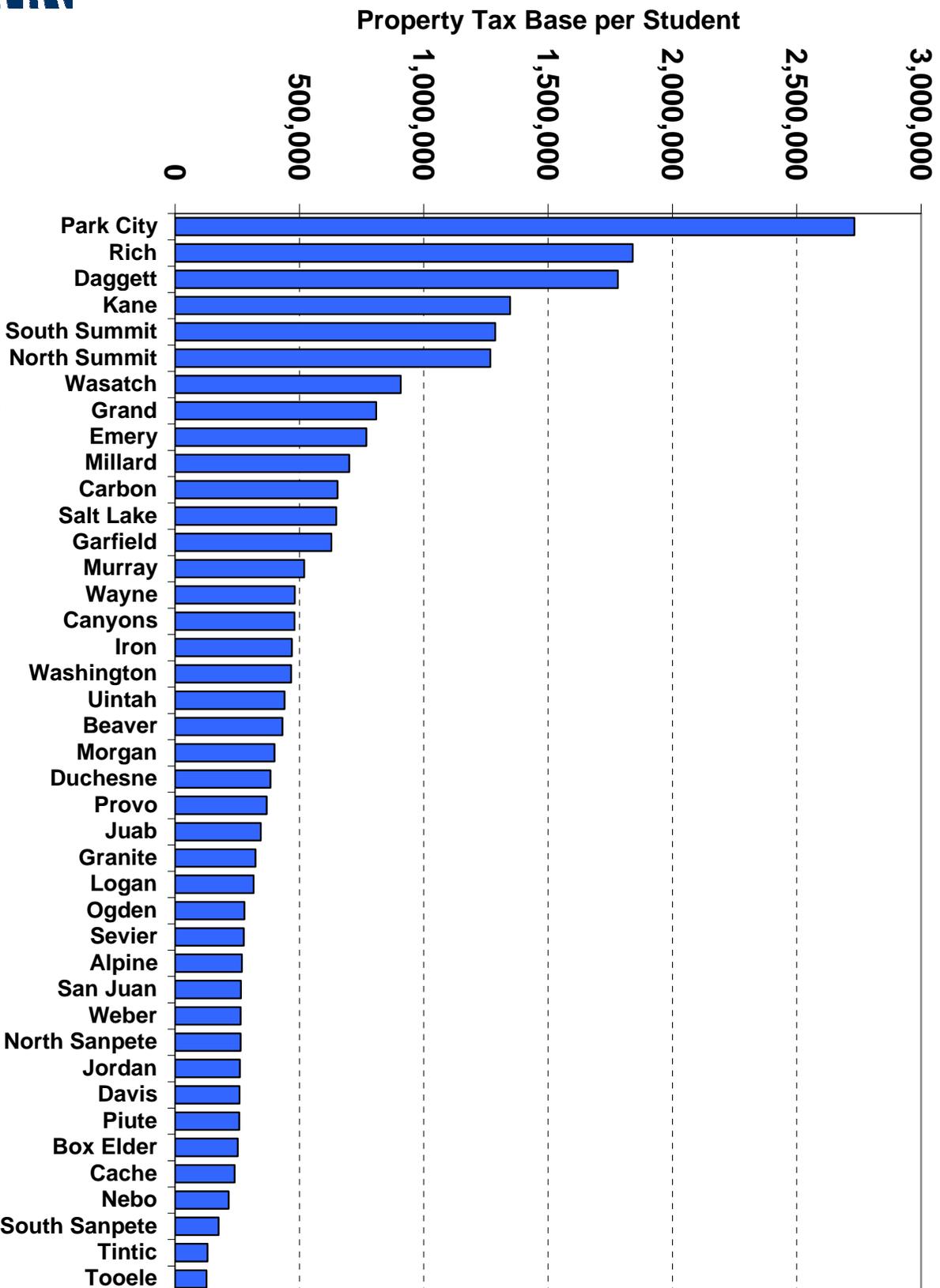
Total Enrollment	8,000	4,000	2,000
Tax Base per Enrolled Student	\$125,000	\$500,000	\$2,500,000

# Taxable Property Tax Base per Student (2009)



Data Source: Utah State Office of Education

School District



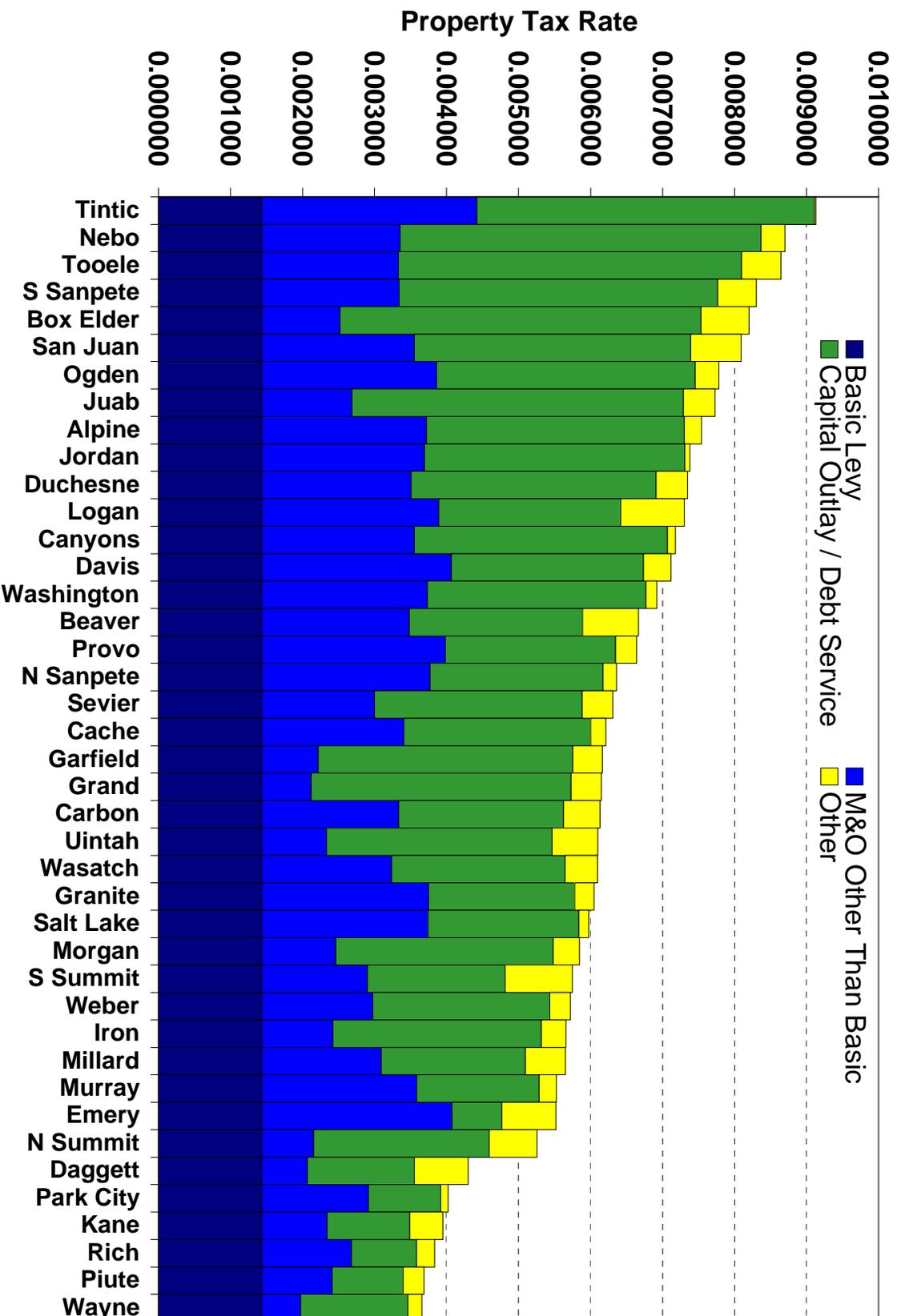
# School District Property Tax Levies

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- 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

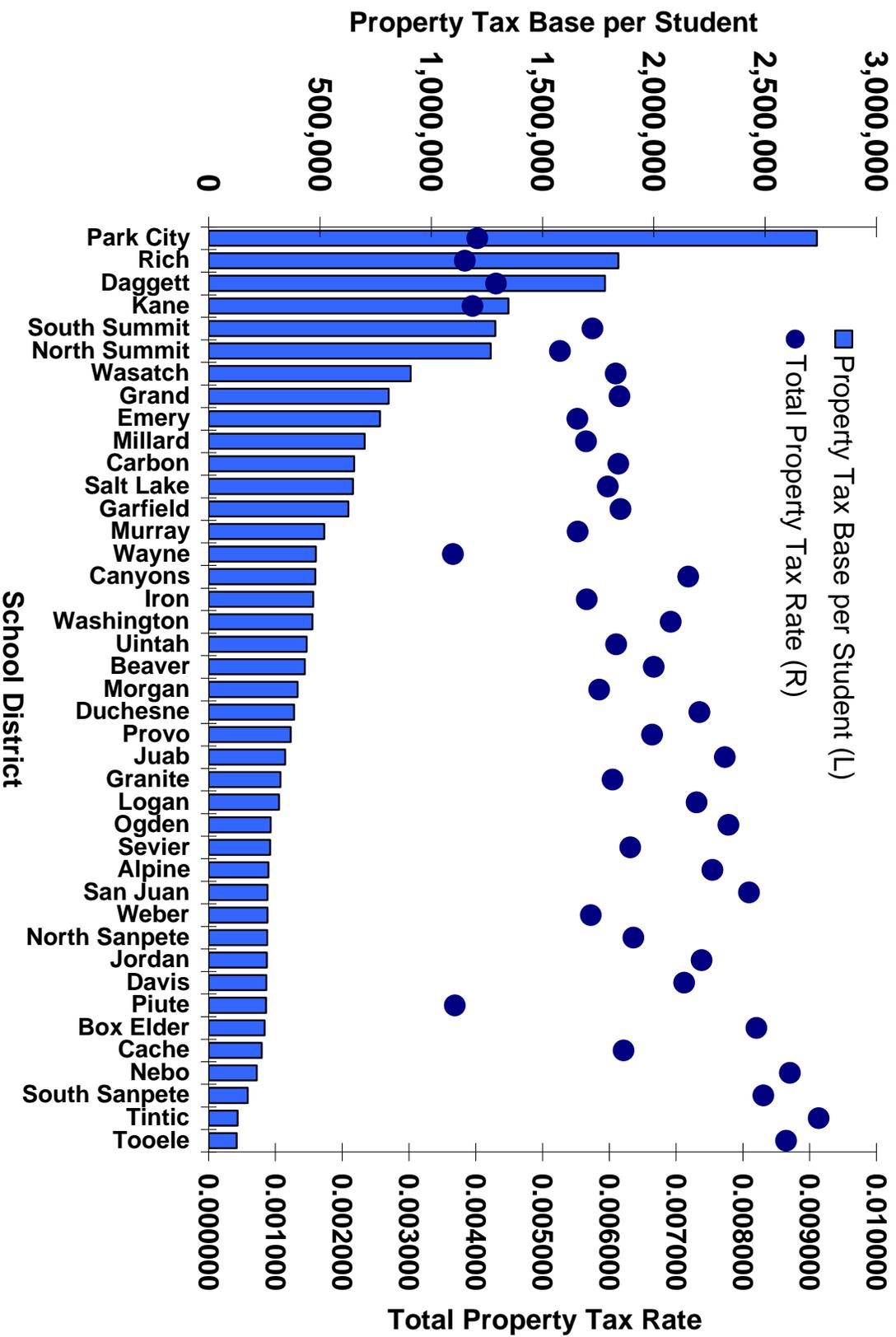
## Tax Year 2009



Data Source: Utah State Office of Education

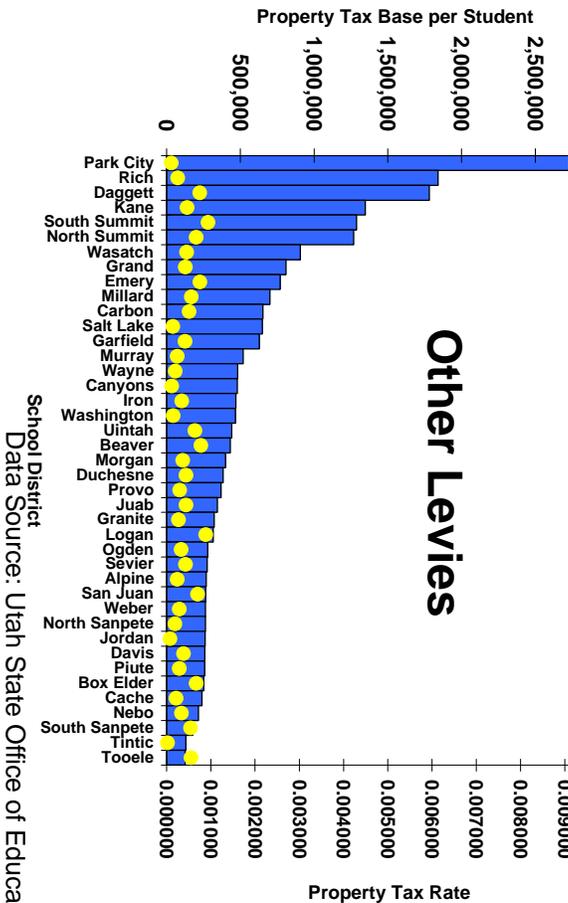
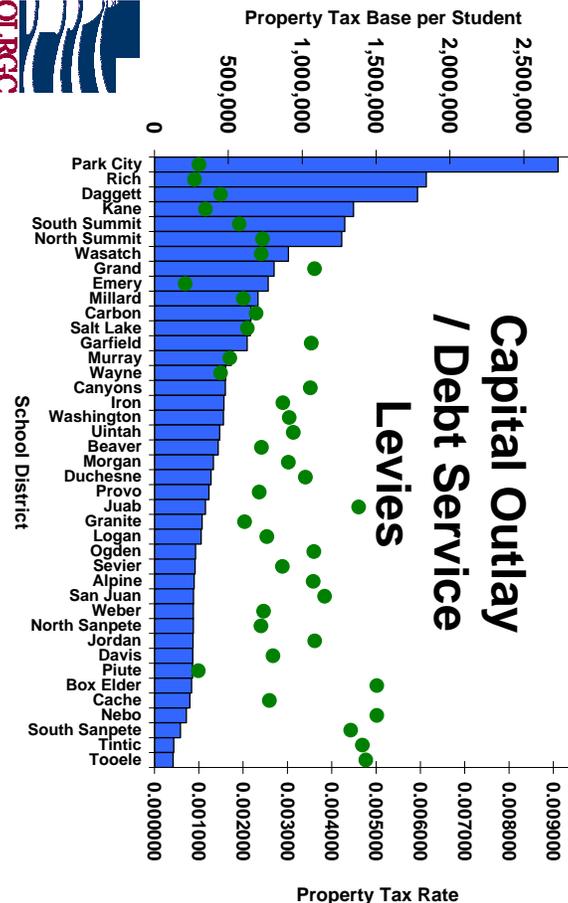
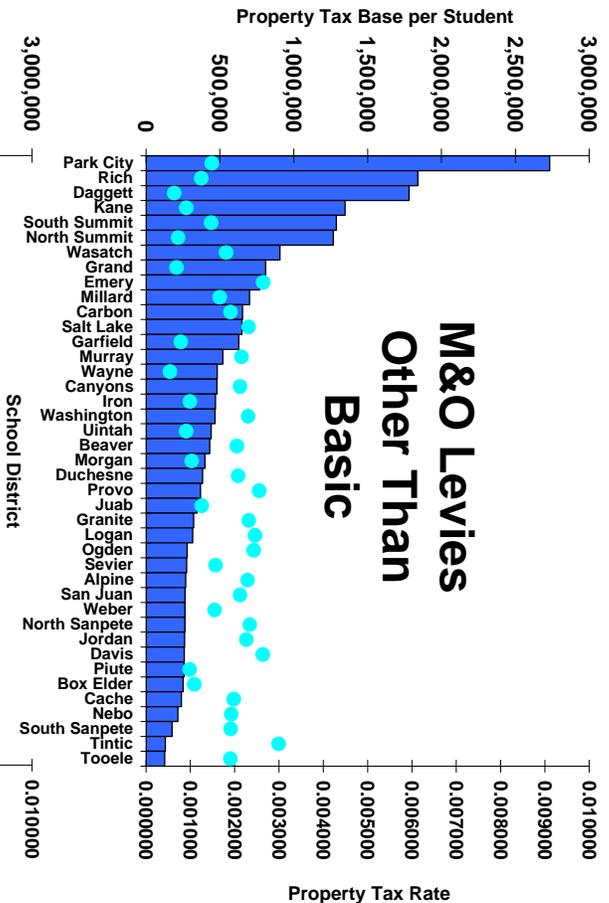
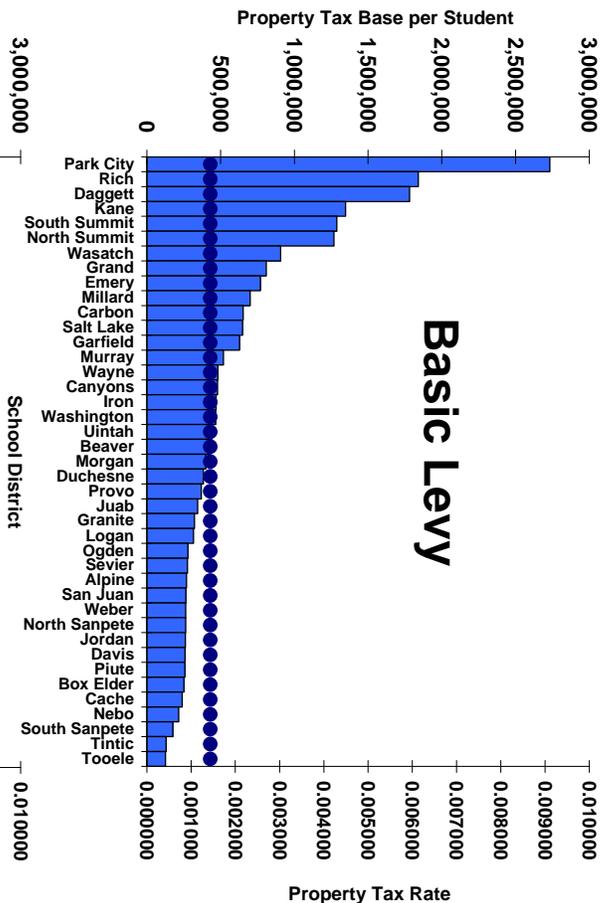


# Property Tax Base per Student and Tax Rates (2009)



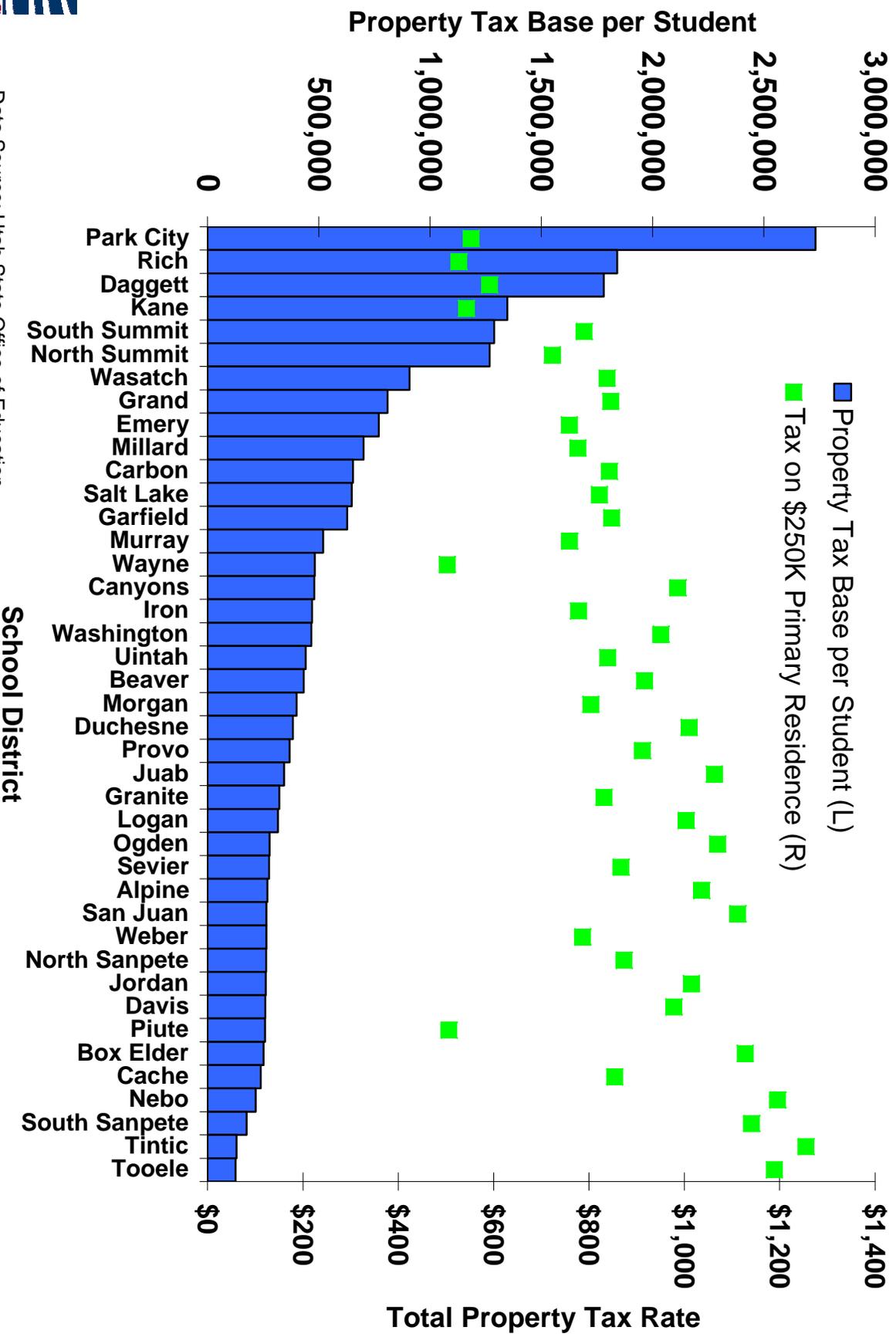
Data Source: Utah State Office of Education

# Property Tax Base per Student and Tax Rates (2009)



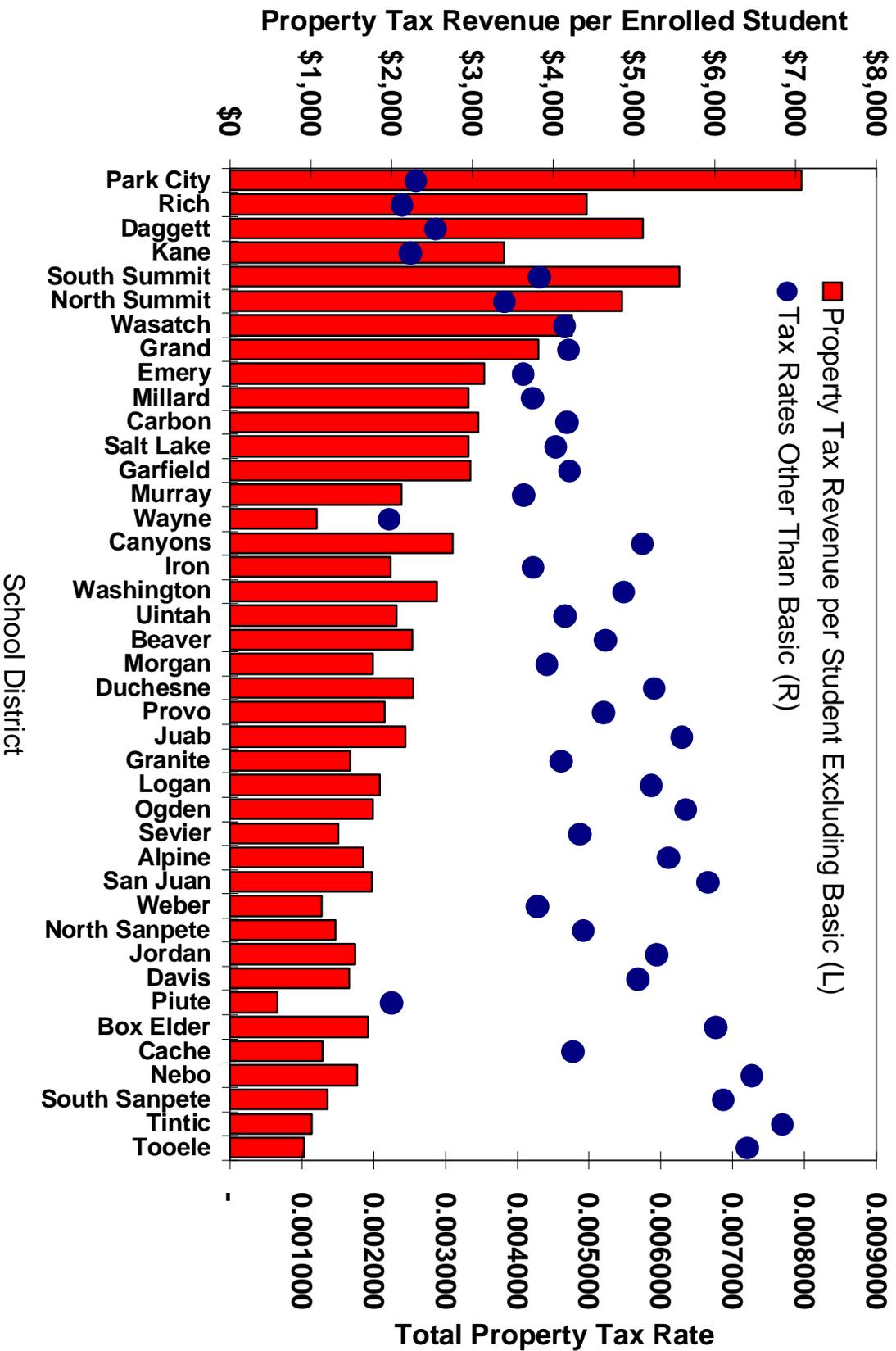
School District Data Source: Utah State Office of Education

# Impact of Differing Tax Rates on \$250,000 Primary Residence (2009)



Data Source: Utah State Office of Education

# Property Tax Rates and Property Tax Revenue per Enrolled Student (2009)



Data Source: Utah State Office of Education

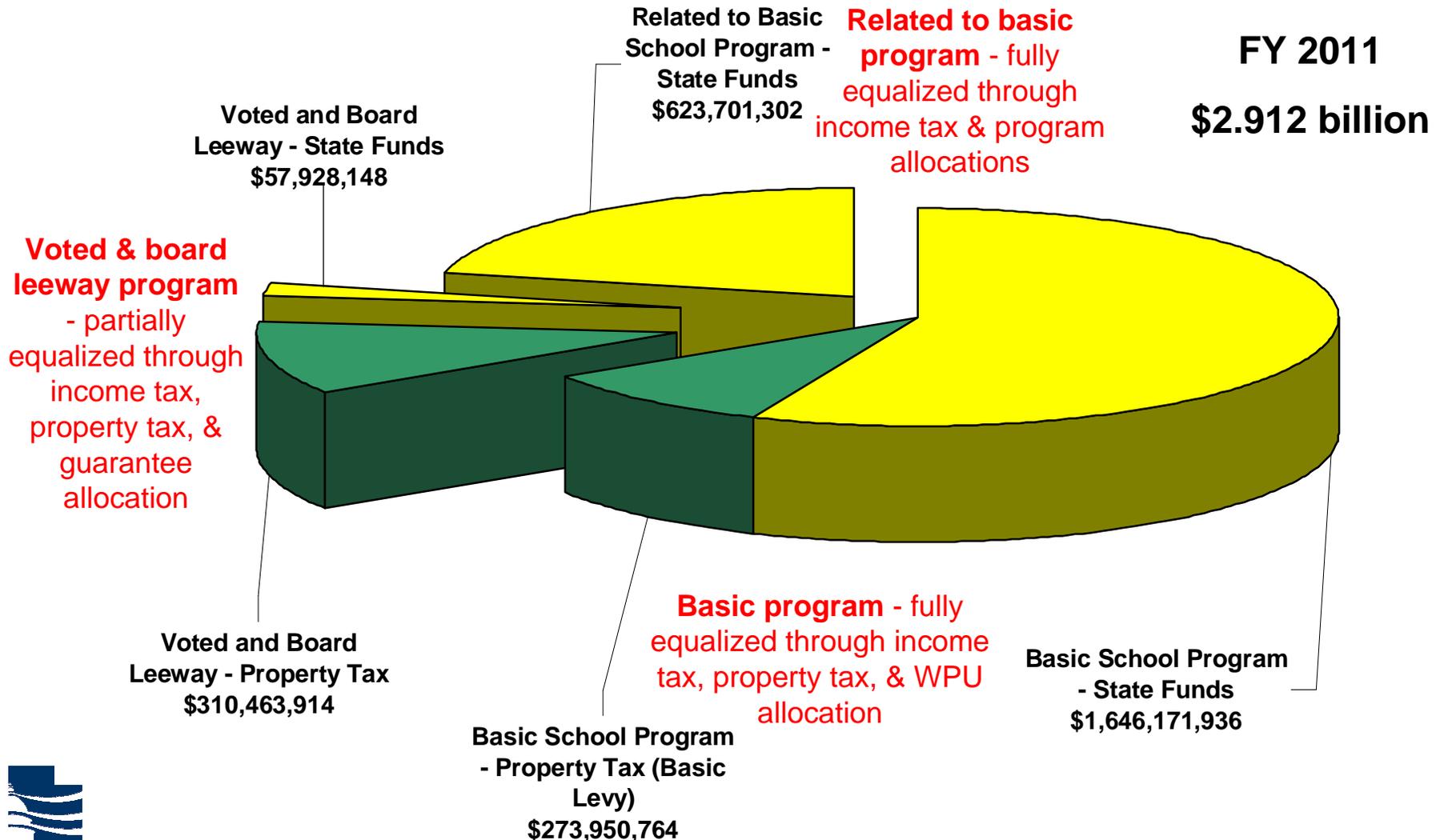
# What Does “Equalization” Mean?

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- 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



# Components of the Minimum School Program



Data source: Office of the Legislative Fiscal Analyst

# Basic Program

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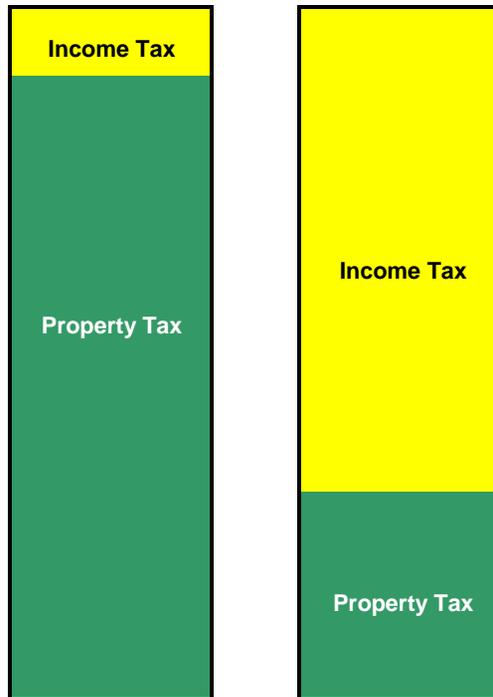
- The basic program (the largest component of the minimum school program) is fully equalized on both the tax side and the expenditure side
- Tax = Uniform basic levy & income tax
- Expenditure = WPU allocation methodology

# Basic Program

## Two Hypothetical School Districts

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	District A	District B
Value of WPU	\$2,500	\$2,500
WPUs	1,000	1,000
Basic program statutory entitlement	\$2,500,000	\$2,500,000
Net Taxable Value (Property Tax Base)	\$1,500,000,000	\$500,000,000
Basic levy (Tax Rate)	0.001500	0.001500
Basic Levy Yield (Property Tax Revenue)	\$2,250,000	\$750,000
Allocation from Education Fund	\$250,000	\$1,750,000



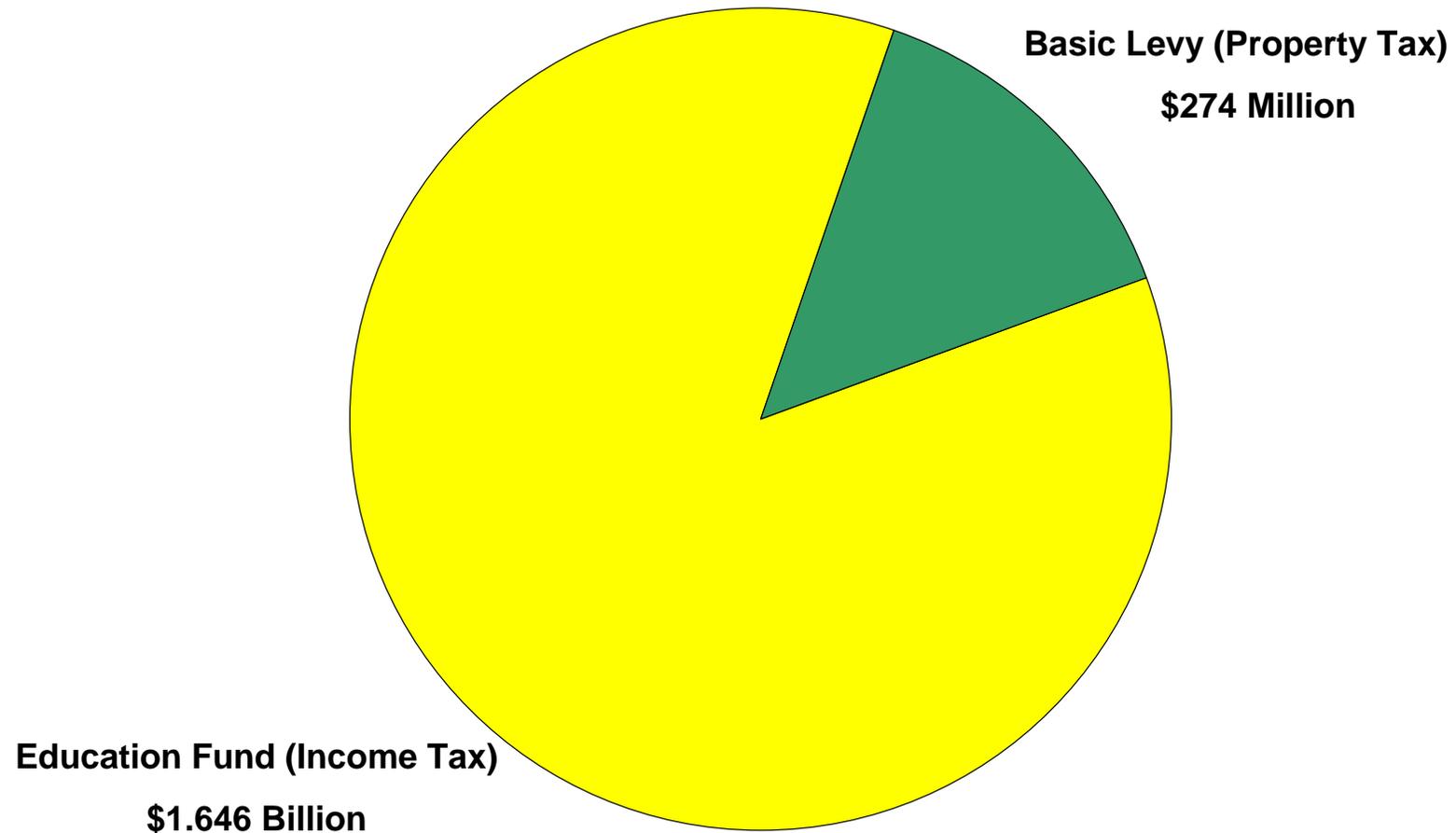
- Under the basic program, each school district and charter school is guaranteed the amount of revenue generated by its number of weighted pupil units (WPUs) multiplied by the value of the WPU.

- 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.

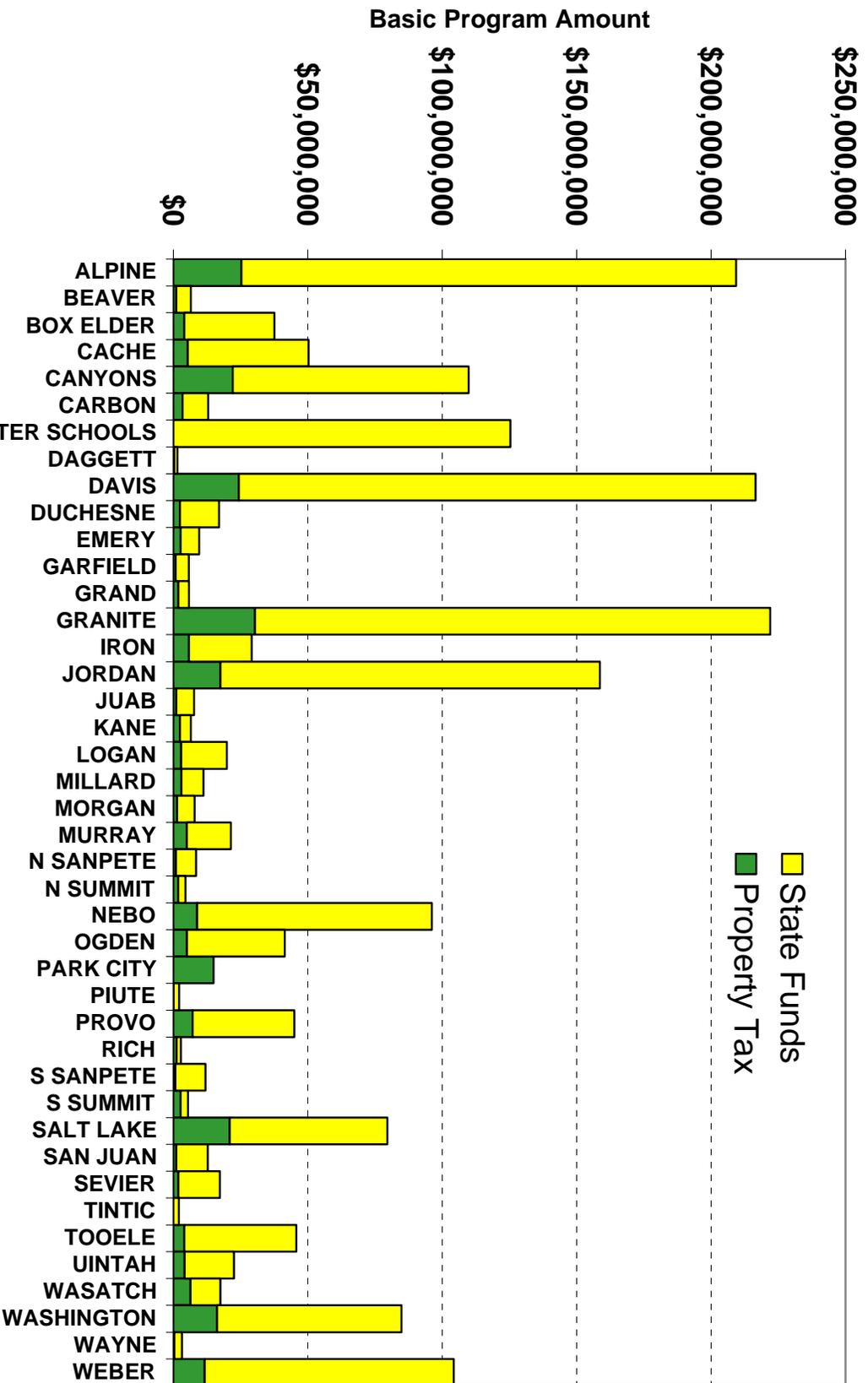
# Statewide Basic Program Funding Sources

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

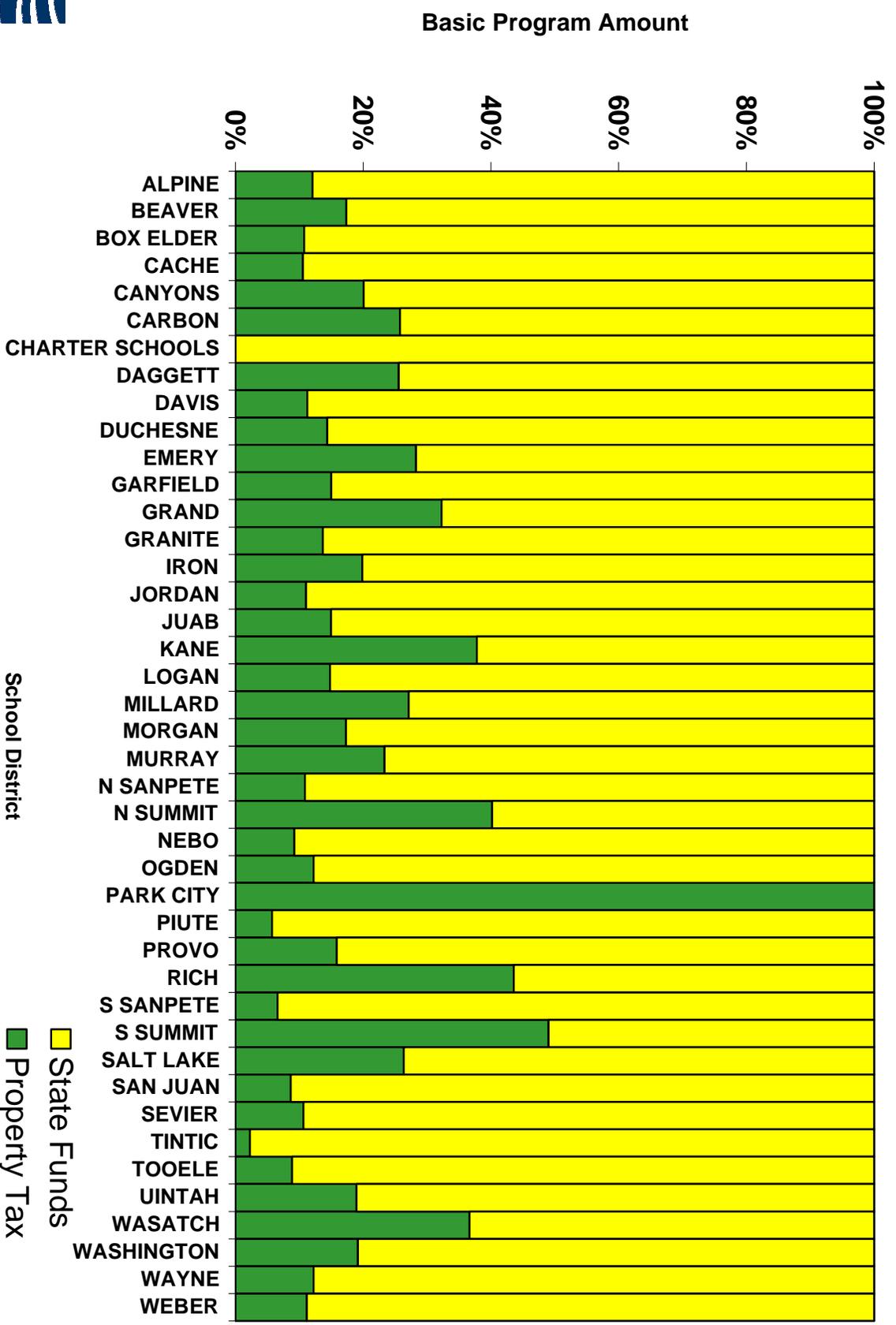
# Basic Program Amounts



Data source: Utah State Office of Education

School District

# Basic Program Funding Source

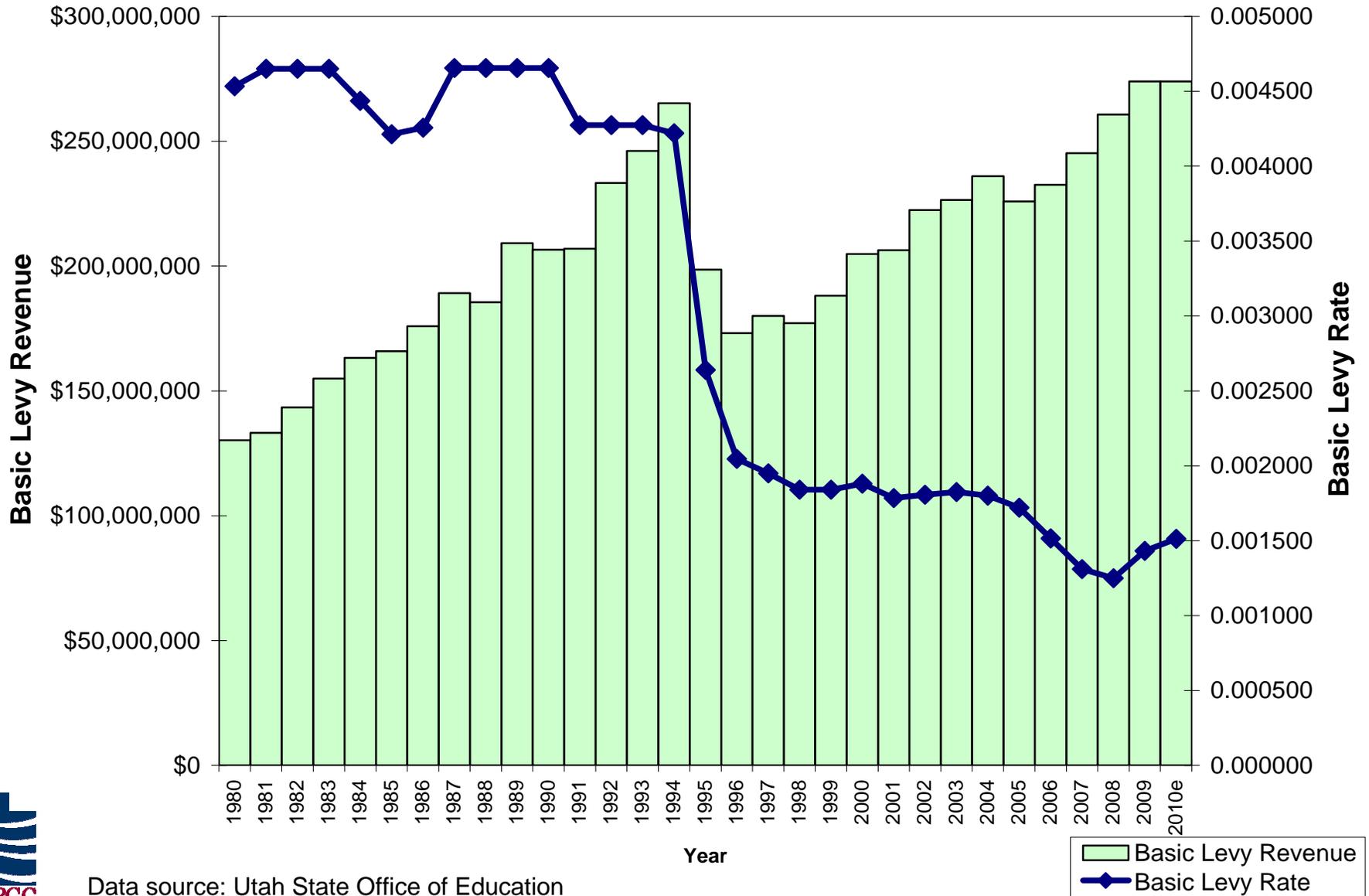


Data source: Utah State Office of Education

School District

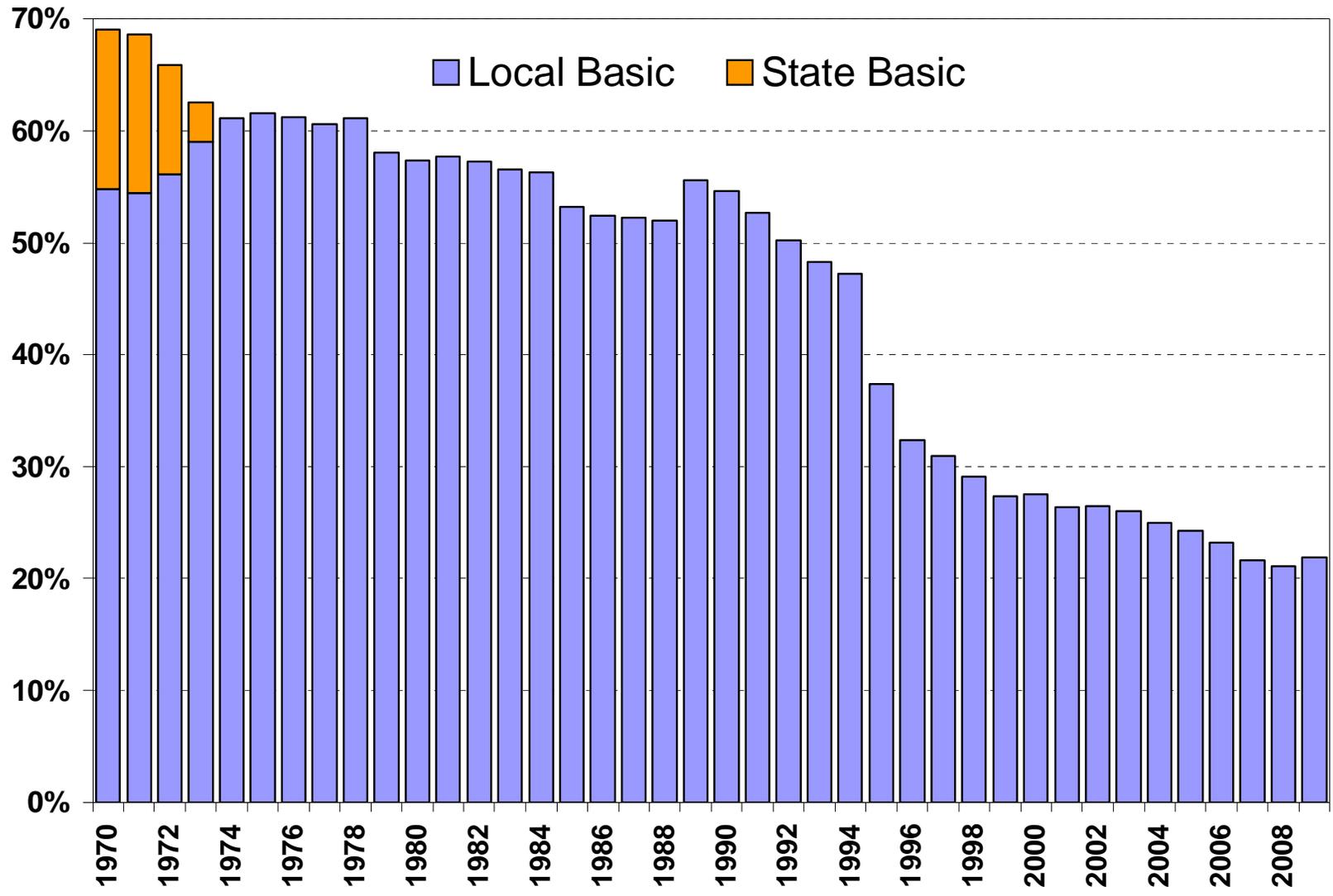
State Funds  
Property Tax

# Basic Levy History



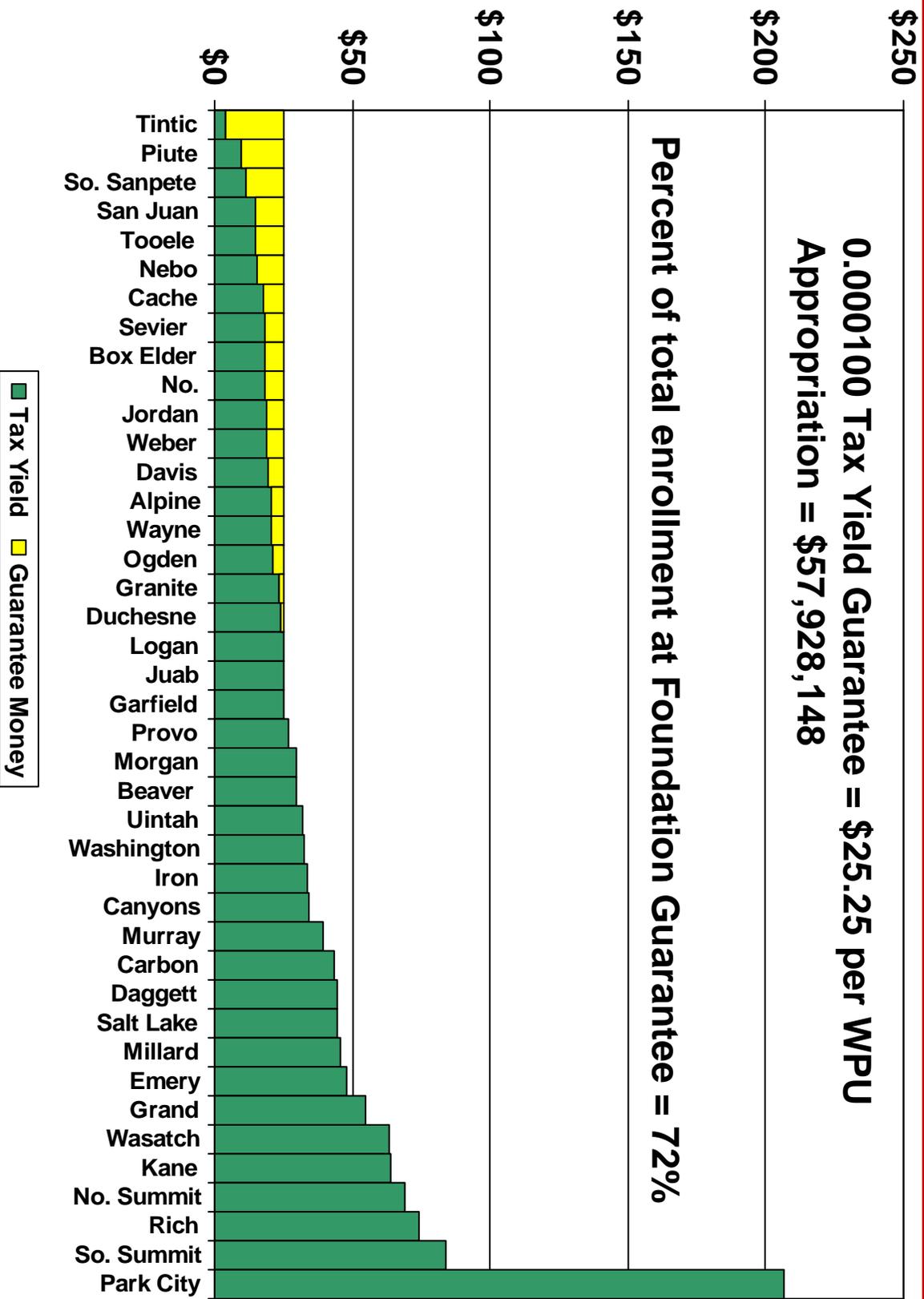
Data source: Utah State Office of Education

# Basic Levy as % of Total School Property Tax



Data source: Utah State Office of Education

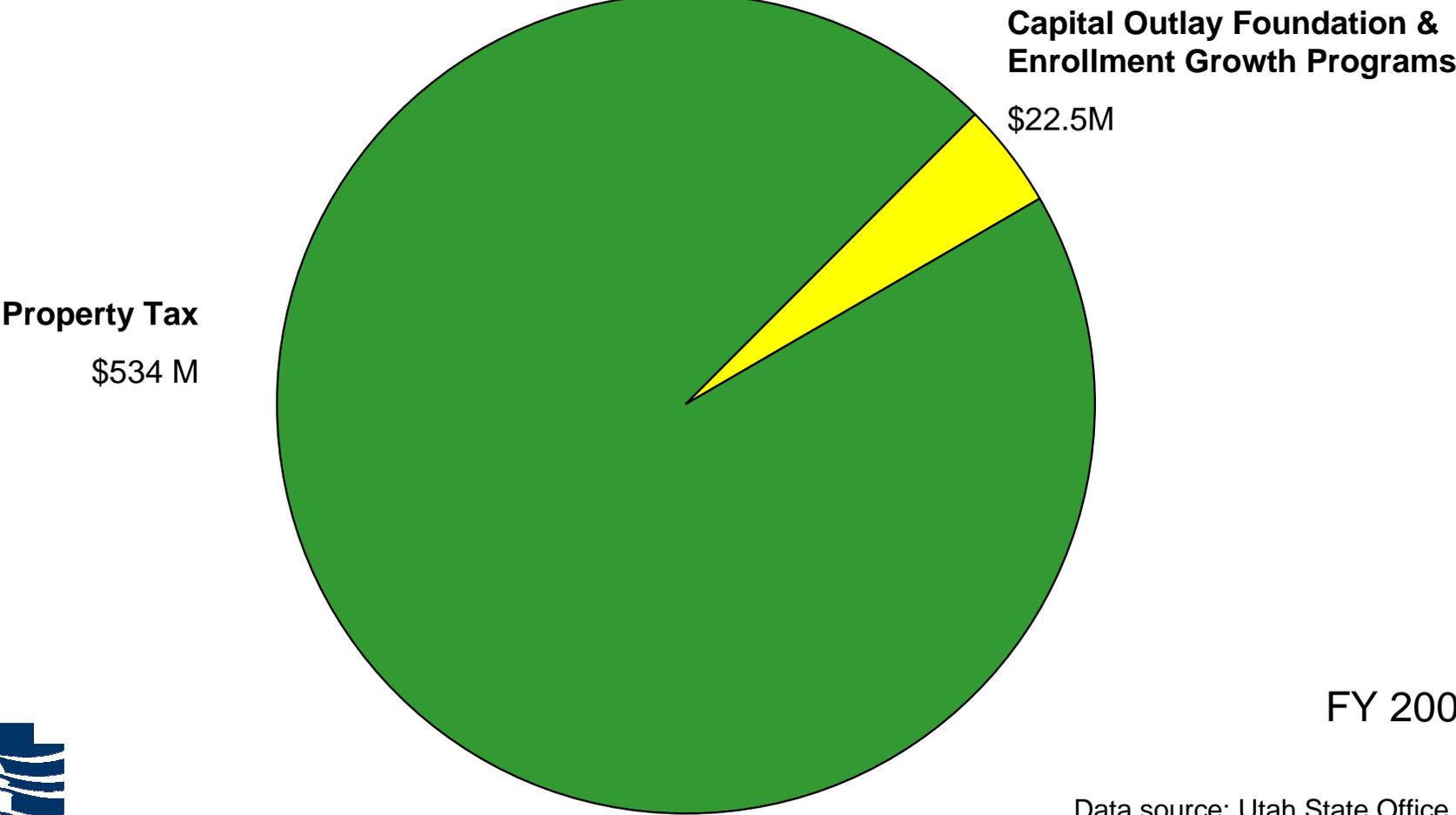
# Voted and Board Leeway Guarantee (FY 2011)



Data Source: Utah State Office of Education

# Statewide School District Capital Outlay Funding Sources

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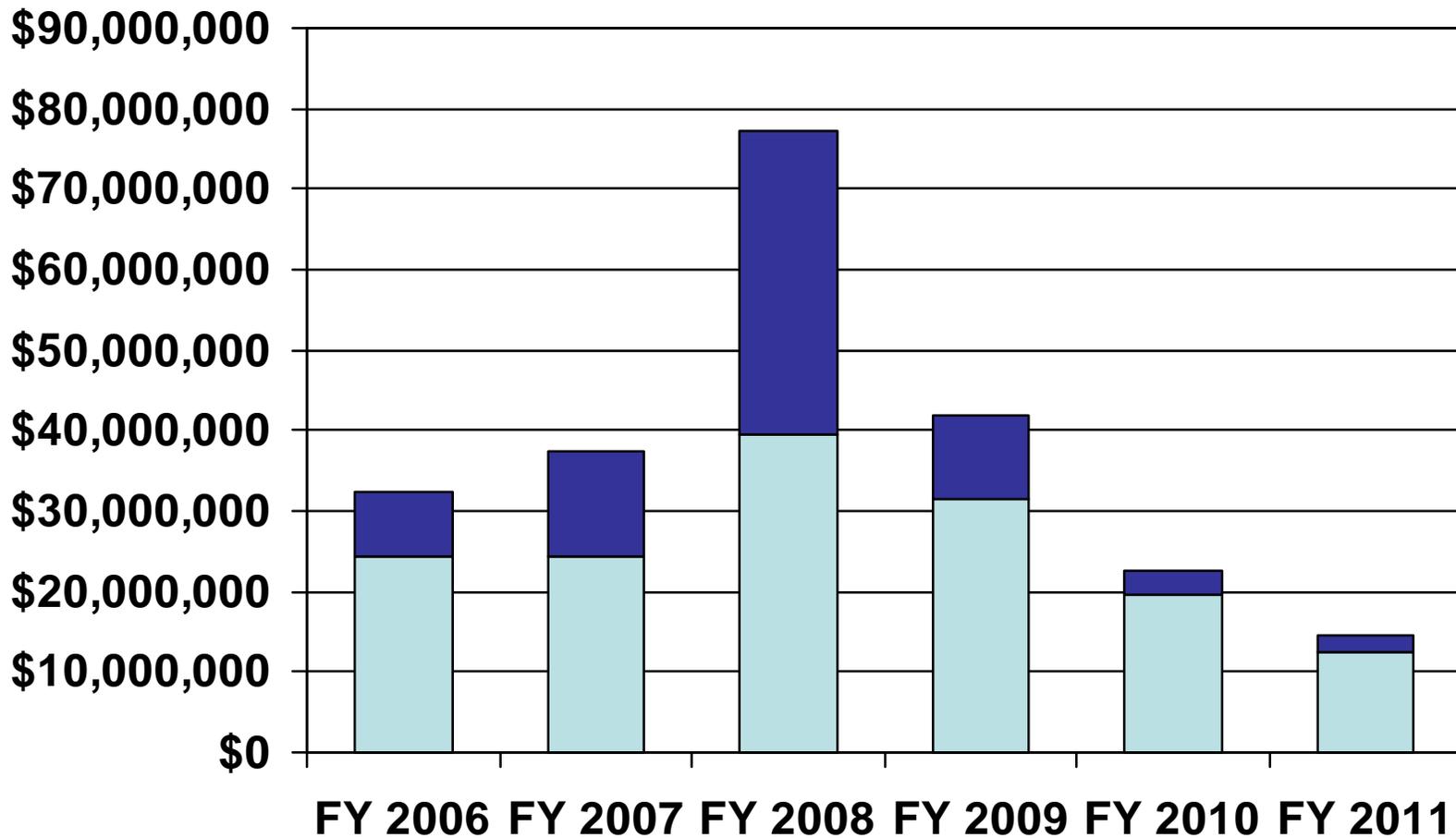


FY 2009-10

Data source: Utah State Office of Education



# Capital Outlay Foundation & Enrollment Growth Programs

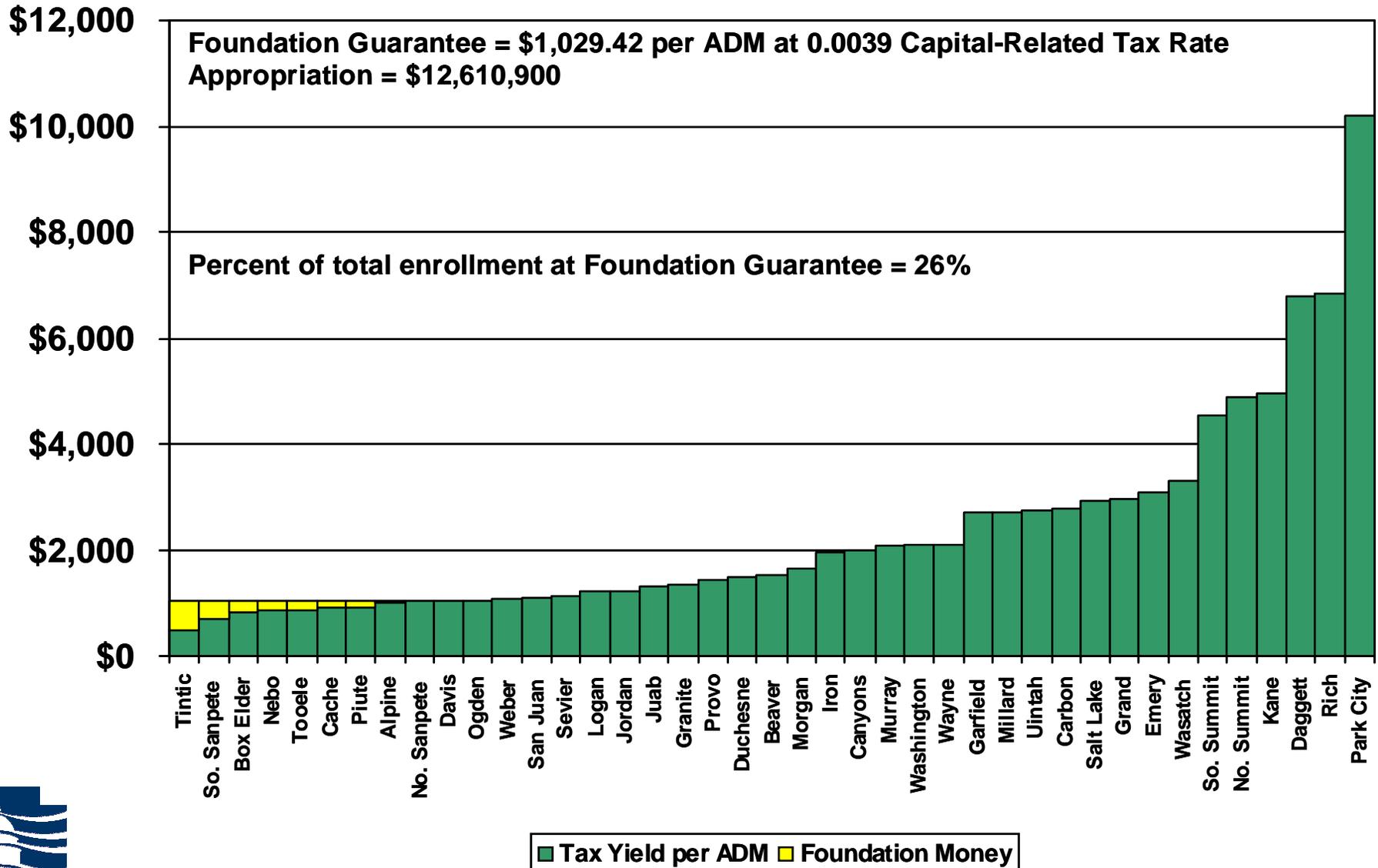


■ Foundation Program ■ Enrollment Growth Program



Data Source: Utah State Office of Education

# Capital Outlay Foundation Program



Data Source: Utah State Office of Education

# Theoretical Equalization Continuum

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## Who should pay for school costs?

User Fee

Impact  
Fee

District-wide  
Equalization

County-wide  
Equalization

Statewide  
Equalization

Only parents  
of children in  
schools

Owners of  
new homes  
and new  
businesses

All property  
owners within  
school district

All property owners  
within a county  
(same as district in all but  
7 counties)

Taxpayers  
statewide

*Secondary  
school fees*

*Currently  
prohibited by  
statute*

*Discretionary school  
property tax levies  
(voted leeway, board  
leeway, debt service  
levy, capital outlay  
levy, etc.)*

*Partial capital outlay  
equalization in county of  
the first class*

*Basic levy / basic  
program, voted & board  
leeway state funding,  
educator salary  
adjustments, state pupil  
transportation funds*

# Equalization Questions for Policymakers

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- 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

(801) 538-1032

