Presentation Outline

• Property tax background
• Education funding and property tax
  – Basic indicators of school funding needs
  – School funding sources
  – School property taxes
    • Tax base
    • Tax rates
    • Tax revenues
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Why Discuss Property Taxes Today?

• Property tax is on the mind of many taxpayers
  – Preliminary property tax statements mailed in July
  – Truth in taxation hearings in August
  – Final 2008 property tax rates set by taxing entities after truth in taxation hearings, then verified and finalized by Tax Commission
  – Property tax bills mailed to property owners

• Property tax is a major school funding source
  – Majority of all property tax statewide goes to fund schools
  – General implications for overall education funding, including state budget implications
  – Implications when a new school district is created

• Taxable values have increased rapidly in recent years
  – Rapid value increases in existing property
  – Significant value growth from new property development
Three Major State & Local Revenue Sources
Income, Property, and Sales Tax

FY 1982 to FY 2007

Data Source: Utah State Tax Commission, Property Tax Division & Economic and Statistical Unit
Property Tax
A Major Component of Utah’s State and Local Government Tax System

Data Source: Utah State Tax Commission Annual Report, FY 2007
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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

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

Enrollment Growth

Data Source: Utah State Office of Education, Jordan School District
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, are very unlikely to perfectly match up with the tax base of any revenue source on a geographic basis (school-by-school or district-by-district).
- Examples:
  - Some states allow a local income tax. The distribution of Utah’s income tax base does not align with the distribution of the student population (one basic measure of school need).
  - Utah allows 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).
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Funding Source Comparisons
Utah Relies Less on Local Funding Than Many States

Data Source: National Center for Education Statistics
National Comparisons

Major Education Revenue Sources by Region

Data Source: National Center for Education Statistics
How is Utah Public Education Funded?

Major Revenue Sources:

- Income Taxes ($2.7 billion)
- Property Taxes ($1.2 billion)
- Federal Funds ($0.3 billion)
- Dedicated Credits and Other ($0.06 billion)

Fiscal year 2008-09 estimates

Data source: Office of the Legislative Fiscal Analyst, Utah State Tax Commission
Property Tax
A Major Component of Utah Public Education Funding

Data Source: Office of the Legislative Fiscal Analyst, State Office of Education
School Property Tax as a Percent of Total Property Tax

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

- Special Districts: 11%
- Schools – Basic Levy (M&O): 12%
- Counties: 18%
- Schools – Other M&O: 18%
- Municipalities: 15%
- Schools – Capital Outlay / Debt Service: 24%
- Schools – Other: 2%

Data Source: Utah State Tax Commission, State Office of Education
School Property Taxes as a Percent of Total Property Taxes

Data Source: Utah State Tax Commission
Major Revenue Sources by District

Data Source: Office of the Legislative Fiscal Analyst

Note: Data for Tintic School District unavailable
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Property Tax Bases Vary

• 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.)
  – Exemption / valuation differences among property types
    • Primary residences receive 45% exemption, so 55% of value taxable
    • Greenbelt agricultural properties valued based on agricultural production, not parcel 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
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.
Data Source: Utah State Office of Education
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 874 - Federal impact aid / Title VII (not currently imposed)
Utah School District Property Tax Rates
Tax Year 2007

Data Source: Utah State Office of Education
Property Tax Base per Student and Total Tax Rate

Data Source: Utah State Office of Education
Current School Funding Equalization

• Basic Program
  – Utah’s basic program (WPU) in the operations portion of the public education budget is often seen nationally as a model of an equitable education funding system
  – Similar students meeting qualifying characteristics are funded similarly
    • Districts with different property tax base receive same funding level
  – Different student characteristics yield different funding amounts
    • Kindergarten student generates less funding than other grades (0.55 WPU)
    • Special education student generates more funding
  – Each school district imposes the basic levy – an identical tax rate statewide
  – Because of the equalized basic program, a large portion of the maintenance and operations budget for schools is equalized

• Other Funding
  – Schools can generate additional revenue by imposing certain property tax levies authorized by statute
    • Some state funding minimally equalizes certain other property tax levies (voted leeway / board leeway guarantee) but not equalized near the extent of the basic program equalization
  – School Building Program
    • Foundation Program
    • Enrollment Growth Program
  – Non-WPU driven programs (“below-the-line”) funded with income taxes collected on an equal basis statewide
Components of the Minimum School Program

- Basic Program (WPUs), $1,840,119,735
- Related to Basic Program, $857,278,121
- One-time programs and Other, $62,820,000
- Voted and Board Leeway, $359,913,204

Data source: Office of the Legislative Fiscal Analyst, Public Education Budget Guide
Basic Levy History

Data source: Utah State Office of Education
The Weighted Pupil Unit (WPU)

- The WPU is not total per-pupil spending
- The WPU is used to determine the cost of the basic school program on a uniform basis for each student
  - 1 WPU = 1 student in average daily membership (ADM)
  - Students in Kindergarten receive 0.55 WPUs
  - Specific programs generate additional WPUs, generally based on student qualifications (special education, technology education, etc.)
- The Legislature establishes the WPU value annually
  - FY 2009 WPU Value = $2,577
  - Districts and charter schools receive basic program funding based on their total number of WPUs
    - Hypothetical example:
      1,000 WPUs x $2,577 = $2,577,000 (total basic program funding)
How is the Basic Program Equalized?

**Hypothetical District**

1,000 WPUs x $2,500 per WPU = $2,500,000 basic program amount

Property tax base = $1,500,000,000 x basic levy (.001500) = $2,250,000 property tax revenue

$250,000 Income Tax (Uniform School Fund)
## 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 Uniform School Fund</td>
<td>$250,000</td>
<td>$1,750,000</td>
</tr>
</tbody>
</table>
Statewide Basic Program Funding Sources

- Uniform School Fund (Income Tax)
  - $1.580 Billion
- Basic Levy (Property Tax)
  - $260 Million

Data source: Office of the Legislative Fiscal Analyst, Public Education Budget Guide
Basic Program Amounts

Estimated Basic Program Funding Amount

- Millions

- Uniform School Fund
- Property Tax

Data source: Utah State Office of Education
Basic Program Funding Source

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

FY 2007-08

- Property Tax: $484M
- Capital Outlay Foundation Program: $24.4M ongoing
- Capital Outlay Enrollment Growth Program: $2.9M ongoing

Data source: Utah State Office of Education
School Funding System Relies on Accurate Property Valuation

• Failure to accurately and uniformly assess properties at fair market value distorts the allocation of school funds
  – With the truth-in-taxation certified rate process, undervaluation of properties in one area causes higher taxes statewide through an increase in the certified rate for the basic levy
  – In addition to basic program funding, other state funds are also tied to property tax values per student, including voted/board leeway guarantees and capital outlay foundation program

• So assessment practices by the Tax Commission and assessors in each county impact taxpayers statewide
Property Tax Revenue per Student

Property Tax Revenue per Student Excluding Basic Levy (Left y-axis)

Property Tax Rates Other Than Basic Levy (Right y-axis)
2008 General Session
School Property Tax Equalization Bills

• HB 1 – Basic Program
  – Establishes the tax year 2008 basic levy rate (estimated)

• SB 2 – Basic Program and Property Tax Allocations for Charter Schools
  – Increases the value of the WPU to $2,577
  – Requires school districts to provide a portion of revenue from certain property tax levies for charter school students residing within the district boundaries

• SB 48 – School District Capital Outlay
  – Requires a partial equalization of the capital outlay property tax levy within Salt Lake County
# 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>
<tr>
<td>Secondary school fees</td>
<td>Currently prohibited by statute</td>
<td>Discretionary school property tax levies (voted leeway, board leeway, debt service levy, capital outlay levy, etc.)</td>
<td>Partial capital outlay equalization in county of the first class</td>
<td>Basic levy / basic program, educator salary adjustments, state pupil transportation funds</td>
</tr>
</tbody>
</table>
Please feel free to contact staff with any questions:

Office of Legislative Research and General Counsel

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