

ONE OPTION: REDUCE SPENDING

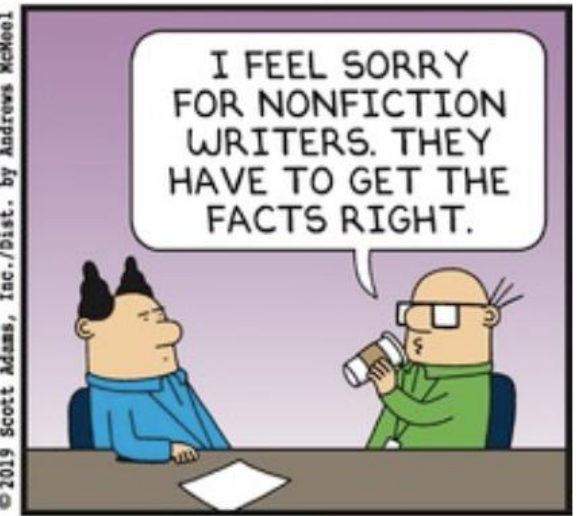
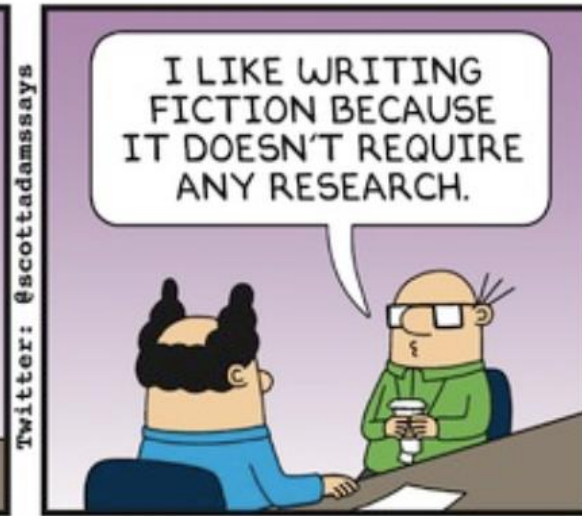
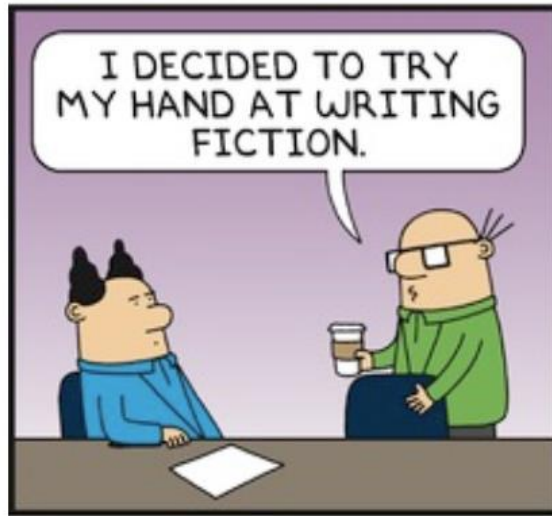
Tax Restructuring and Equalization Task Force
September 5, 2019



DILBERT



BY SCOTT ADAMS



Twitter: @scottadamssays

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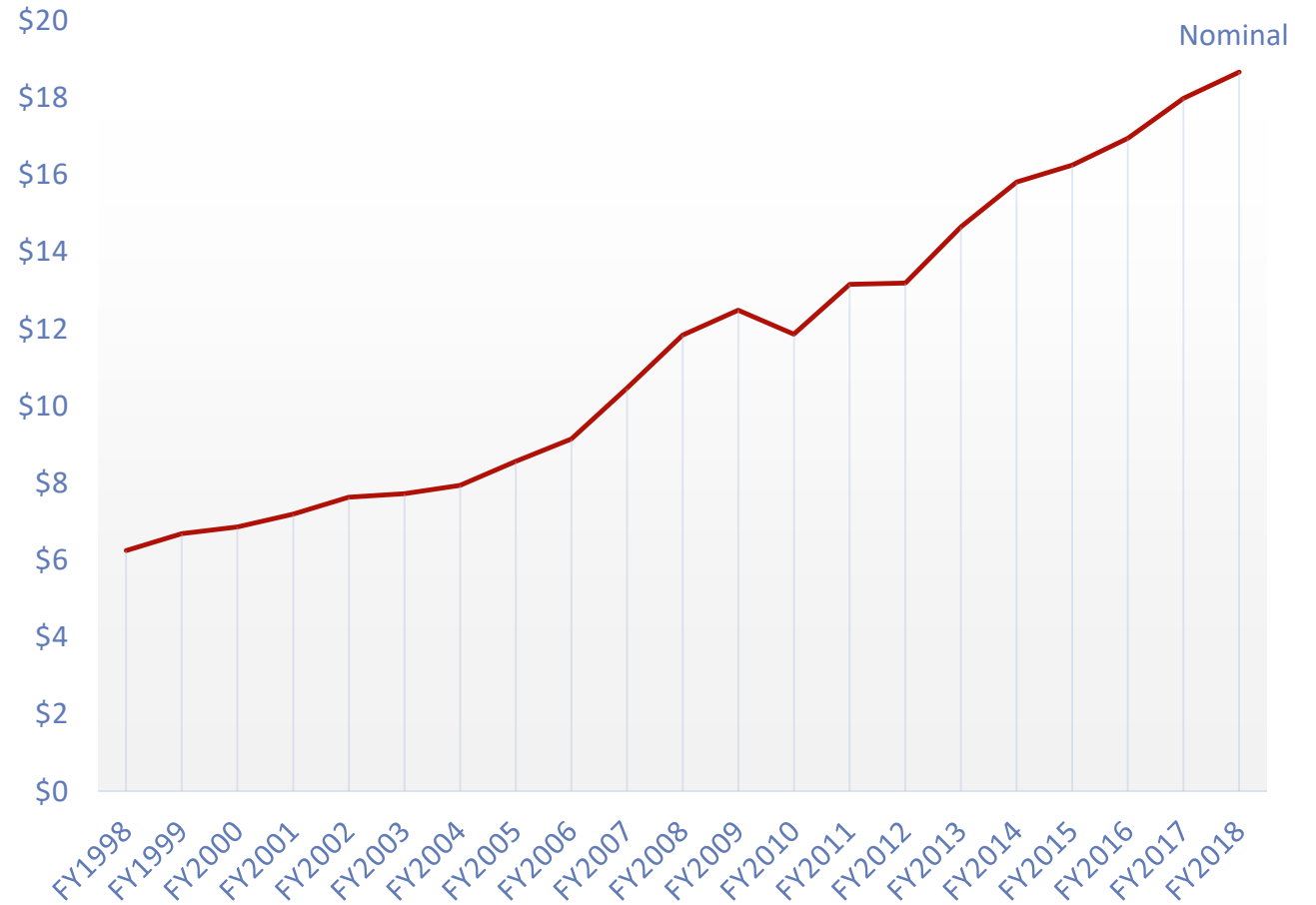
HOUSTON, WE HAVE A (SPENDING) PROBLEM...

...but it's not what you think it is!

DO WE HAVE A “SPENDING PROBLEM”?

- We heard from various outside groups that Utah government spending has outstripped inflation and population.

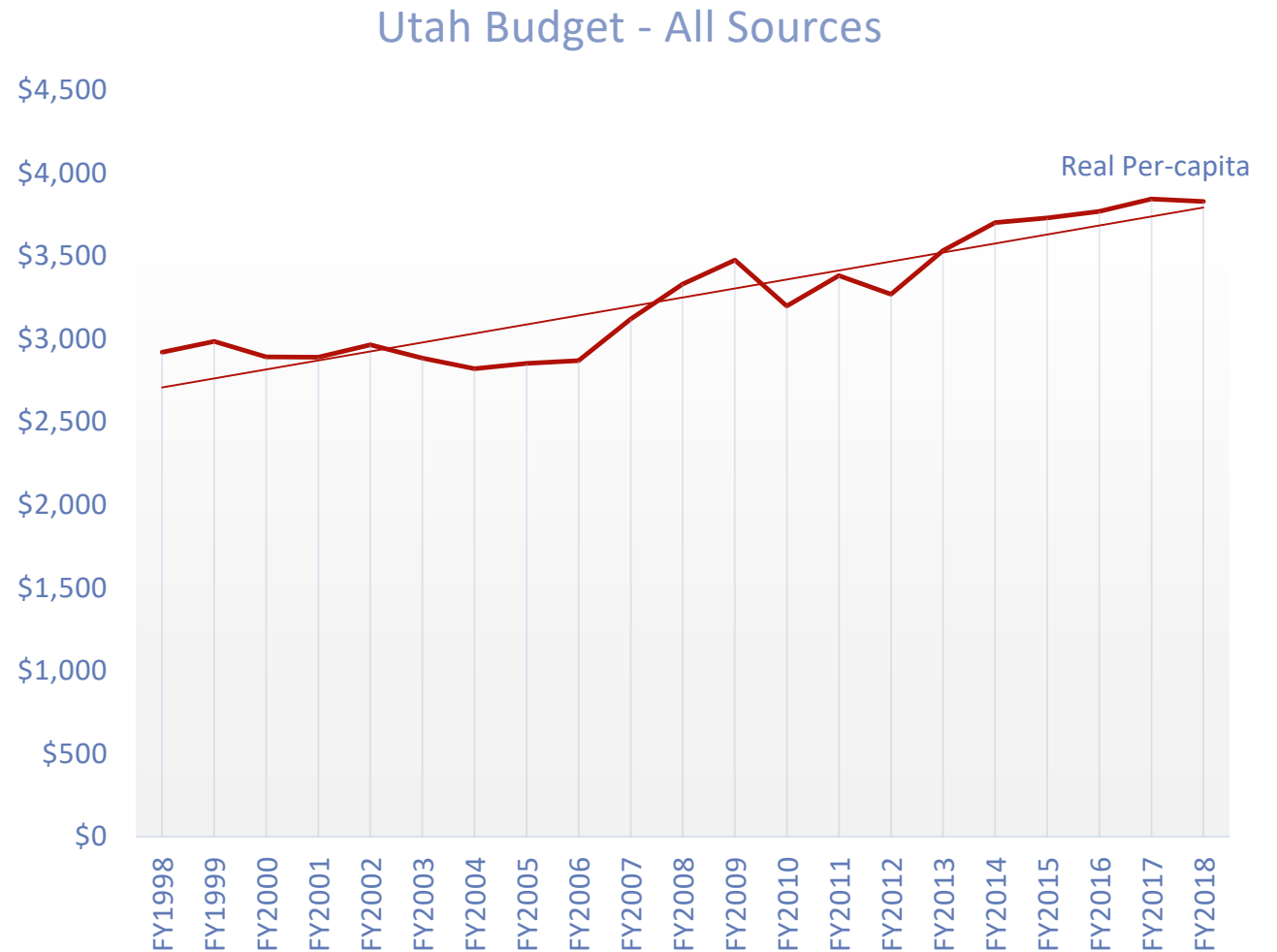
Utah Budget - All Sources (in Billions)



Source: Budget of the State of Utah, Office of the Legislative Fiscal Analyst.

DO WE HAVE A “SPENDING PROBLEM”?

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- Accounting for inflation and population growth, this is TRUE.

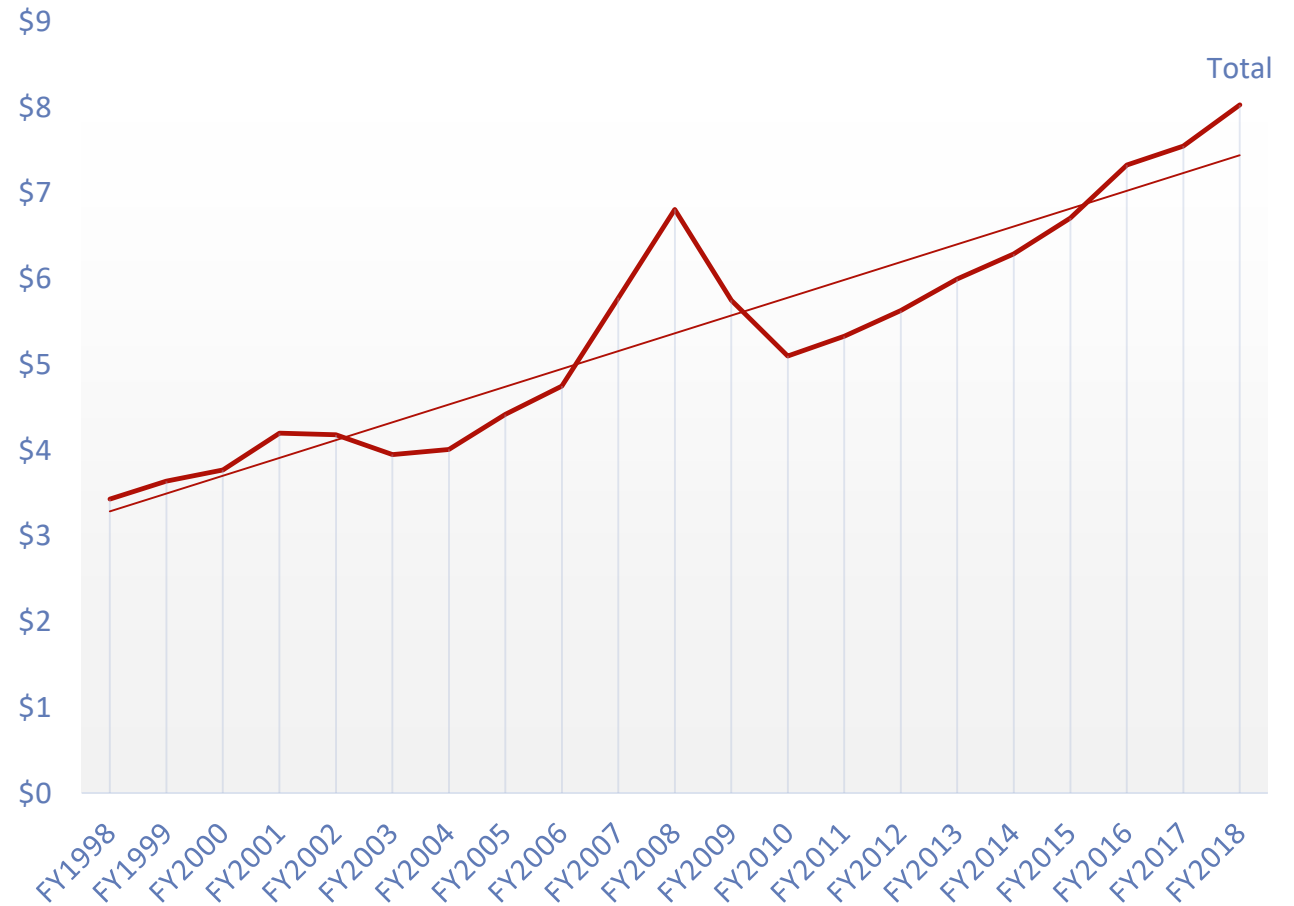


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DO WE HAVE A “SPENDING PROBLEM”?

- We heard from various outside groups that Utah government spending has outstripped inflation and population.
- Accounting for inflation and population growth, this is TRUE.
- "State Only" sources have also grown significantly in the past 20 years.

Utah Budget – General Revenue (in Billions)

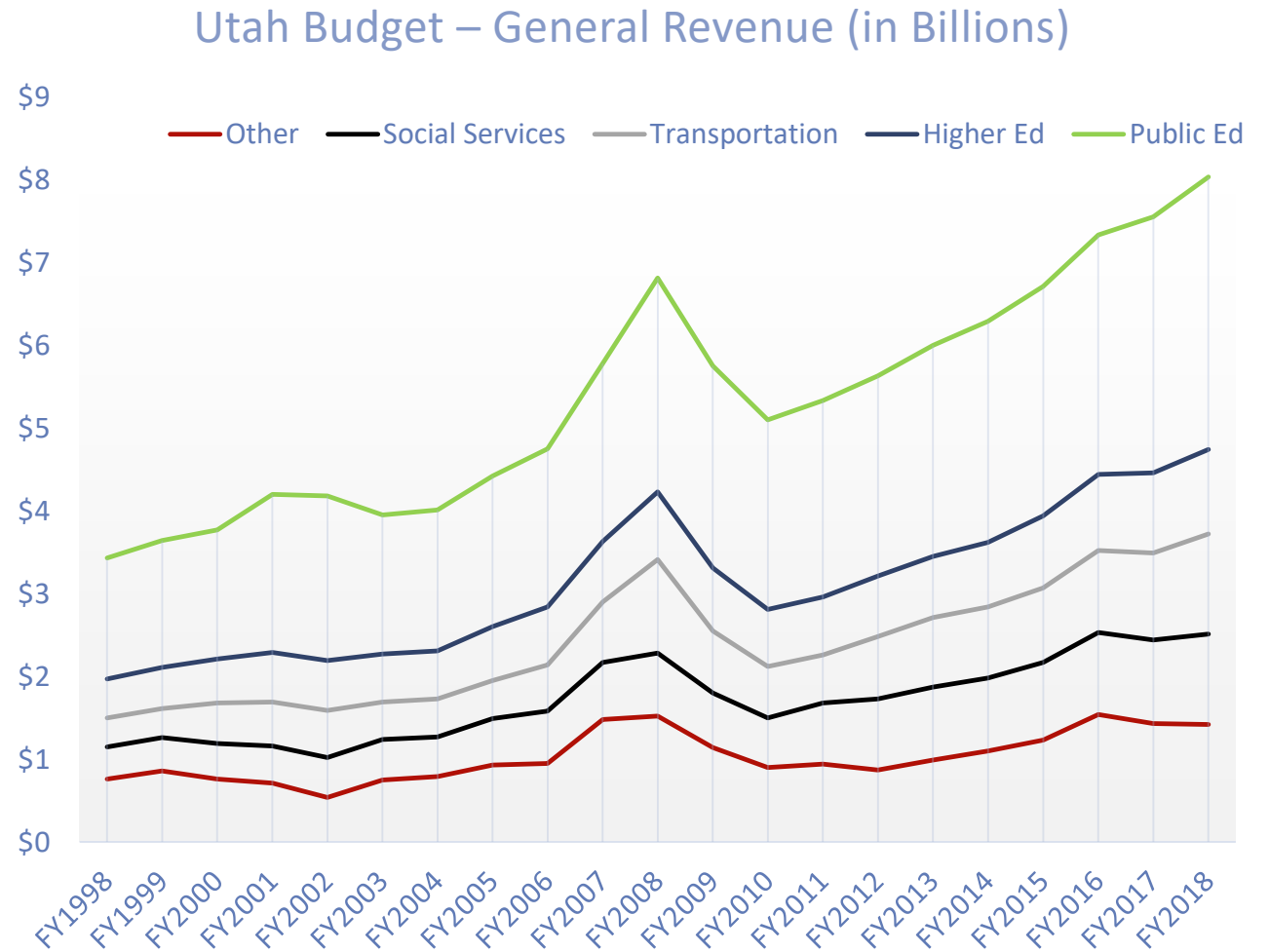


“General Revenue” includes General Fund (sales tax), Education Fund (Income tax), Transportation Fund (gas tax) and sales tax earmarked for Transportation.

Source: Budget of the State of Utah, Office of the Legislative Fiscal Analyst.

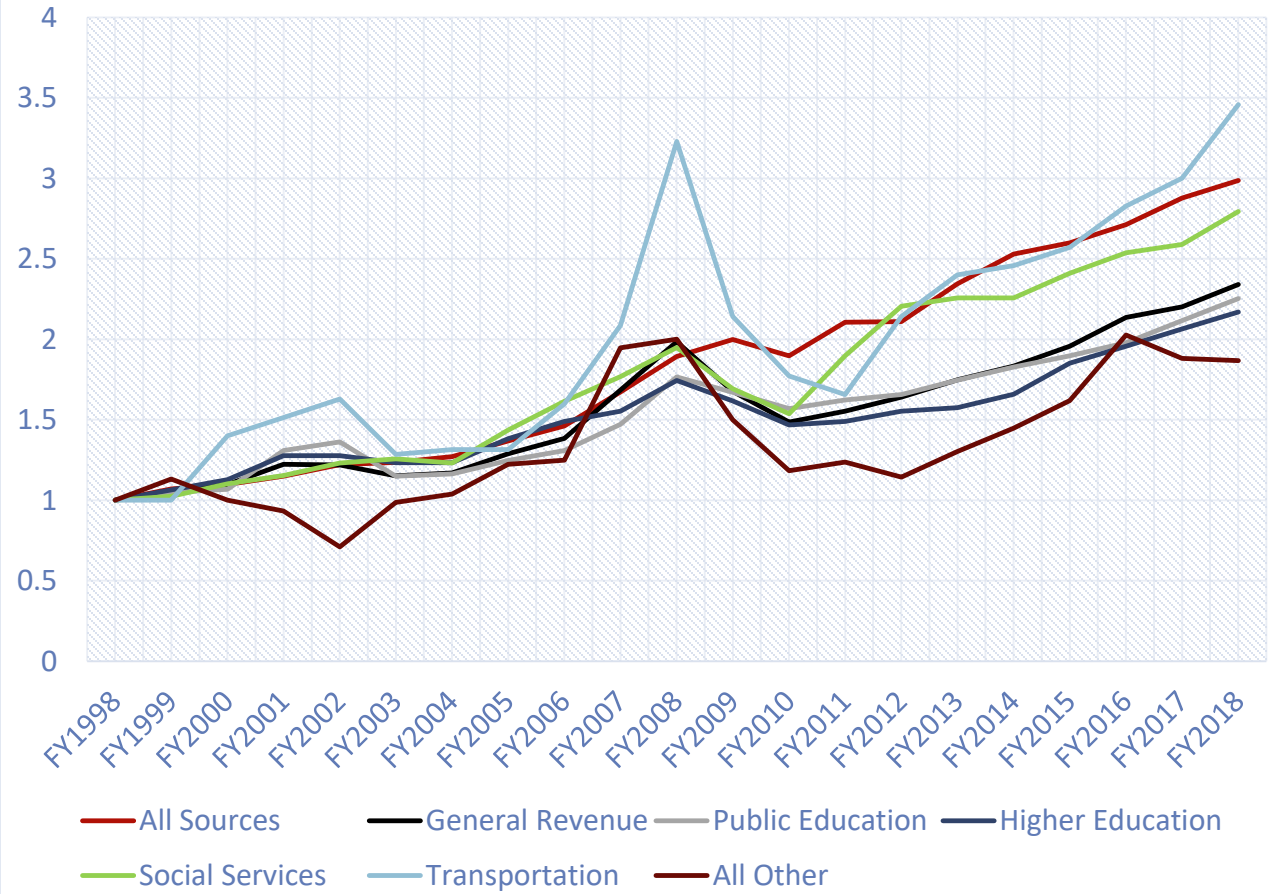
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- Though growth has been in education, transportation, and social services.



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Source: Budget of the State of Utah, Office of the Legislative Fiscal Analyst.

Index of State Spending



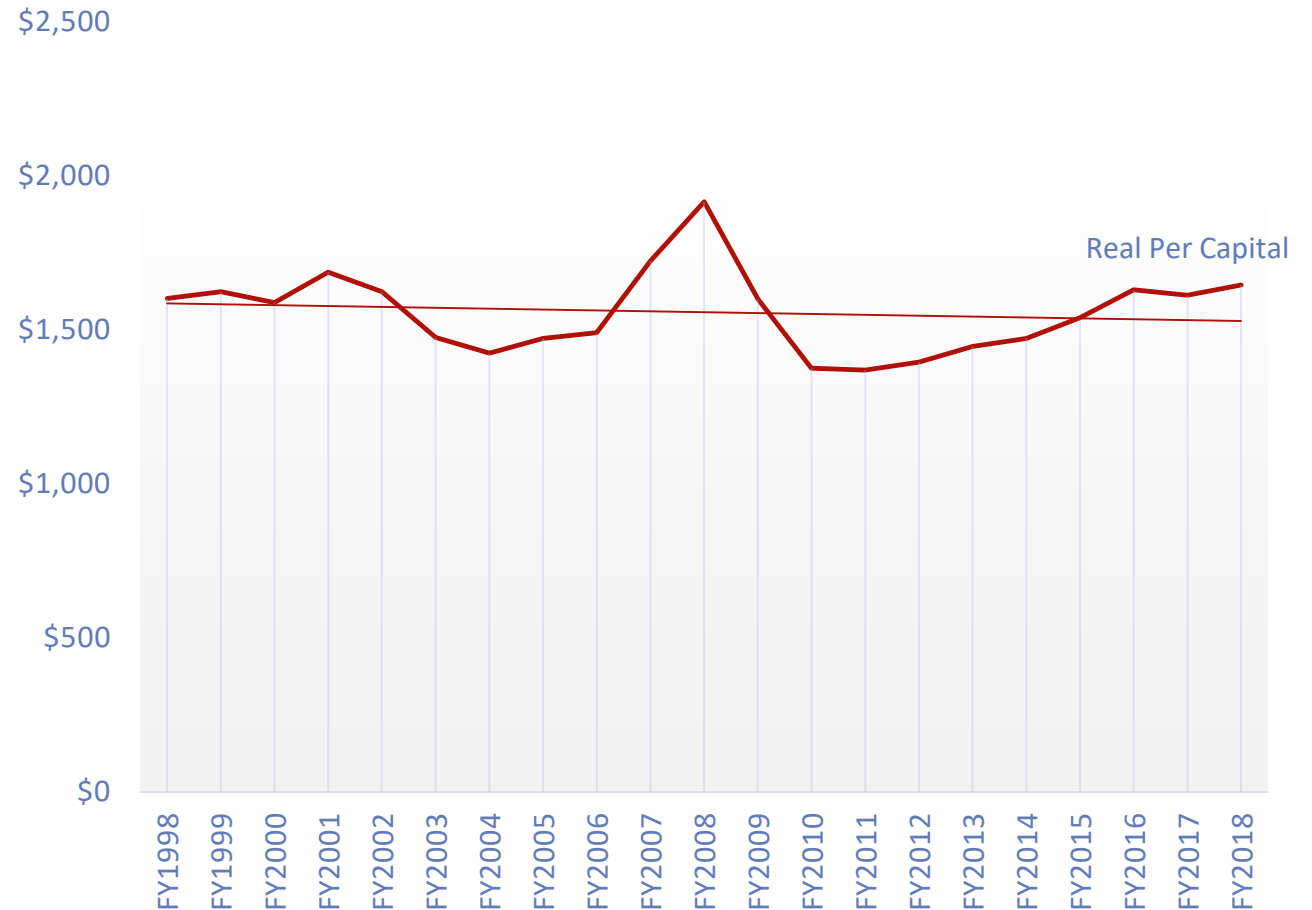
WHAT'S GROWING?

- Using index anchored in 1998, we can see where growth is occurring relatively.
- All sources triple over 20 years.
- General Revenue grows 2.5 times.
- Public Education tracks General Revenue.
- Higher Education tracks General Revenue.
- Social Services grows faster than General Revenue.
- Transportation grows faster than everything.
- "All Other" spending grows most slowly.

DO WE HAVE A “SPENDING PROBLEM”?

- We heard from various outside groups that Utah government spending has outstripped inflation and population.
- Accounting for inflation and population growth, this is TRUE.
- "State Only" sources have also grown significantly in the past 20 years.
- Though growth has been in education, transportation, and social services.
- On a real per-capita basis, general revenue spending has been quite flat for 20 years.

Utah Budget – General Revenue



“General Revenue” includes General Fund (sales tax), Education Fund (Income tax), Transportation Fund (gas tax) and sales tax earmarked for Transportation.
Source: Budget of the State of Utah, Office of the Legislative Fiscal Analyst.

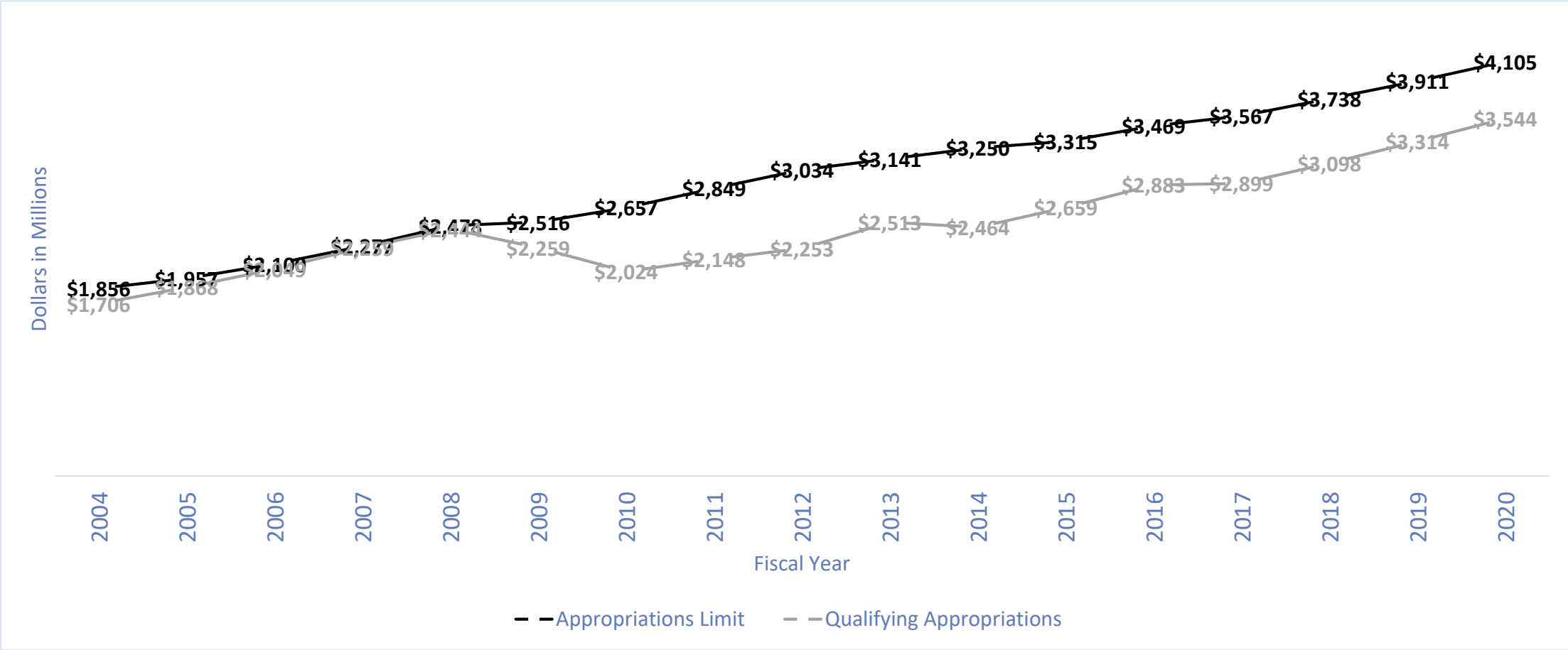
SPENDING CONTROLS ALREADY EXIST...

...and legislators are enhancing them.

STATE APPROPRIATIONS LIMITATION (UCA 63J-3)

- Non-exempt growth limited to 1985 spending levels indexed for inflation and population growth
- Transportation exempted
- Education exempted
- Limit adjusted for federal programs assumed by state (Medicaid, etc.)
- Auditor must annually audit limit and amounts subject to limit then “notify appropriate officials of corrective action.”

HISTORY OF APPROPRIATIONS LIMIT



Structure Swaps Between S.B.2 and S.B. 2 Sub 1

Funding Item	S.B. 2		S.B. 2 Sub 1	
	Ongoing	One-Time	Ongoing	One-Time
Business, Economic Development, and Labor				
DHA - Arts Sustainability Grant Program (12576)	(\$2,000,000)			(\$2,000,000)
GOED - Larry H. Miller Utah Summer Games (13085)	(\$50,000)			(\$50,000)
DHA - Utah Sports Hall of Fame (13141)	(\$250,000)			(\$250,000)
GOED - Utah Small Business Development Center (13186)	(\$150,000)			(\$150,000)
GOED - Inland Port Authority (13585)	(\$1,000,000)			(\$1,000,000)
Txfrs-BEDL - Tourism Marketing Performance Fund (12825)	\$2,000,000		\$27,000,000	(\$25,000,000)
Executive Offices and Criminal Justice				
DPS - UHP Equipment (Video Storage) (12798)	(\$216,000)			(\$216,000)
GOV - Telework Initiative - GOMB (13454)	(\$193,000)			(\$193,000)
DPS - Crime Lab Sexual Assault Kit Processing (12599)	(\$500,000)			(\$500,000)
GOV - Jail Reimbursement Increase (12672)	(\$1,000,000)		\$13,900,000	(\$14,900,000)
COR - Offender Housing (13050)	(\$3,000,000)			(\$3,000,000)
COR - Jail Contracting Increase (12671)	(\$350,000)		\$32,650,000	(\$33,000,000)
DPS - Statewide Public Safety Intelligence Tool (12741)	(\$2,200,000)	(\$1,500,000)		(\$3,700,000)
GOV - Supervision Grants for JRI High-Risk Program (13297)	(\$500,000)			(\$500,000)
Txfrs-EOCJ - Utah Fire Academy Training Courses (13643)			\$4,200,000	(\$4,200,000)
Higher Education				
UTECH Equipment Funding(13394)	(\$1,000,000)			(\$1,000,000)
Infrastructure and General Government				
CAP - Ongoing Funding for Capital Development (13482)		\$87,000,000	\$40,000,000	\$47,000,000
UDOT - Technical Planning Assistance (12681)	(\$1,000,000)			(\$1,000,000)
DTS - Monument Rehabilitation and Restoration Committee (13163)	(\$150,000)			(\$150,000)

AUTOMATIC SPENDING CUTS ESTABLISHED

- When the Legislature failed to make progress on tax reform in the 2019 General Session, they:
 - Created the Tax Restructuring and Equalization Task Force
 - Decelerated General Fund spending in Higher Education to buy more time (House Bill. 3)
 - Set more than \$300 million in automatic spending cuts triggered if Task Force fails to make progress (1st Substitute Senate Bill 2).

ZERO-BASED BUDGETS REQUIRED

- "Accountable Process Budgets" reset 20% of base budgets each year – 100% over five years.
- Subcommittees spend Interim Session scrutinizing base budgets starting from zero.
- Result in base budget separate from formulaic "last year's ongoing" base.
- Requirement passed in 2019 General Session.
- Appropriations Subcommittees currently formulating accountable and traditional base budgets.

Enrolled Copy

H.J.R. 18

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JOINT RULES RESOLUTION ON BASE BUDGETING

PROVISIONS

2019 GENERAL SESSION

STATE OF UTAH

Chief Sponsor: Jefferson Moss

Senate Sponsor: Daniel Hemmert

LONG TITLE

General Description:

This resolution modifies joint rules related to base budgeting.

Highlighted Provisions:

This resolution:

- ▶ defines terms;
- ▶ requires every appropriations subcommittee to create an accountable process budget for a percentage of the subcommittee's budgets each interim; and
- ▶ modifies provisions governing appropriations subcommittee meetings.

CONCLUSIONS

- Total state budget from all sources is growing faster than inflation and population.
- General revenue budget (GF, EF, TF, TIF) about flat on a real per-capita basis.
- Education, social services, and transportation driving growth – all others lagging.
- Controls on spending currently exist.
- Spending is addressed in appropriations subcommittees.

A black and white photograph of the Utah State Capitol building, featuring a large central dome and classical columns. An American flag is visible on a tall pole to the right. The text 'PUBLIC EDUCATION BUDGET' is overlaid in large white letters across the center of the image.

PUBLIC EDUCATION BUDGET

• Understanding Utah's School Funding System



UTAH STATE

LEGISLATURE

September 2019

LEGAL AUTHORITY: UTAH CODE

*Title 53E – PED State
Administration*

*Title 53F – PED Funding
(53F-2: Minimum School Program)*

*Title 53G – PED Local
Administration*

53F-2-103: Public Education System - Purpose

- Equity
 - All children are entitled to reasonably equal educational opportunities regardless of residence or economic situation of their school district
- State & Local Participation
 - Providing a public education is primarily a state function; school districts should be required to pay a portion of the cost of a minimum program
- Local Control & Determination
 - School districts are empowered to provide educational facilities and opportunities beyond the minimum program (Basic School Program)
 - Latitude of action is permitted and encouraged

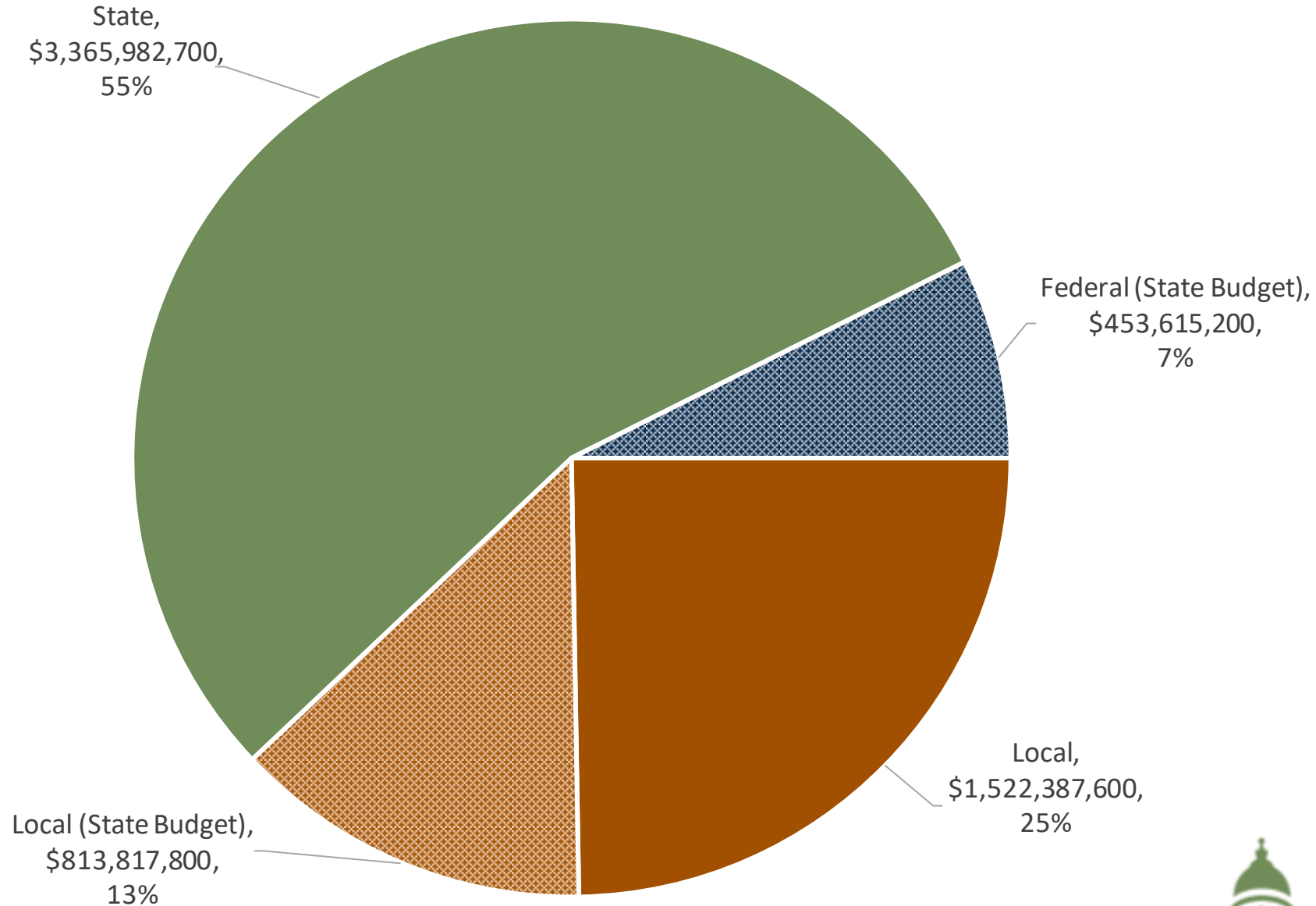
TOTAL REVENUES AS REPORTED BY SCHOOL DISTRICTS & CHARTER SCHOOLS

FY 2018
\$6.2 Billion

Reported in AFR
Excludes State Agencies

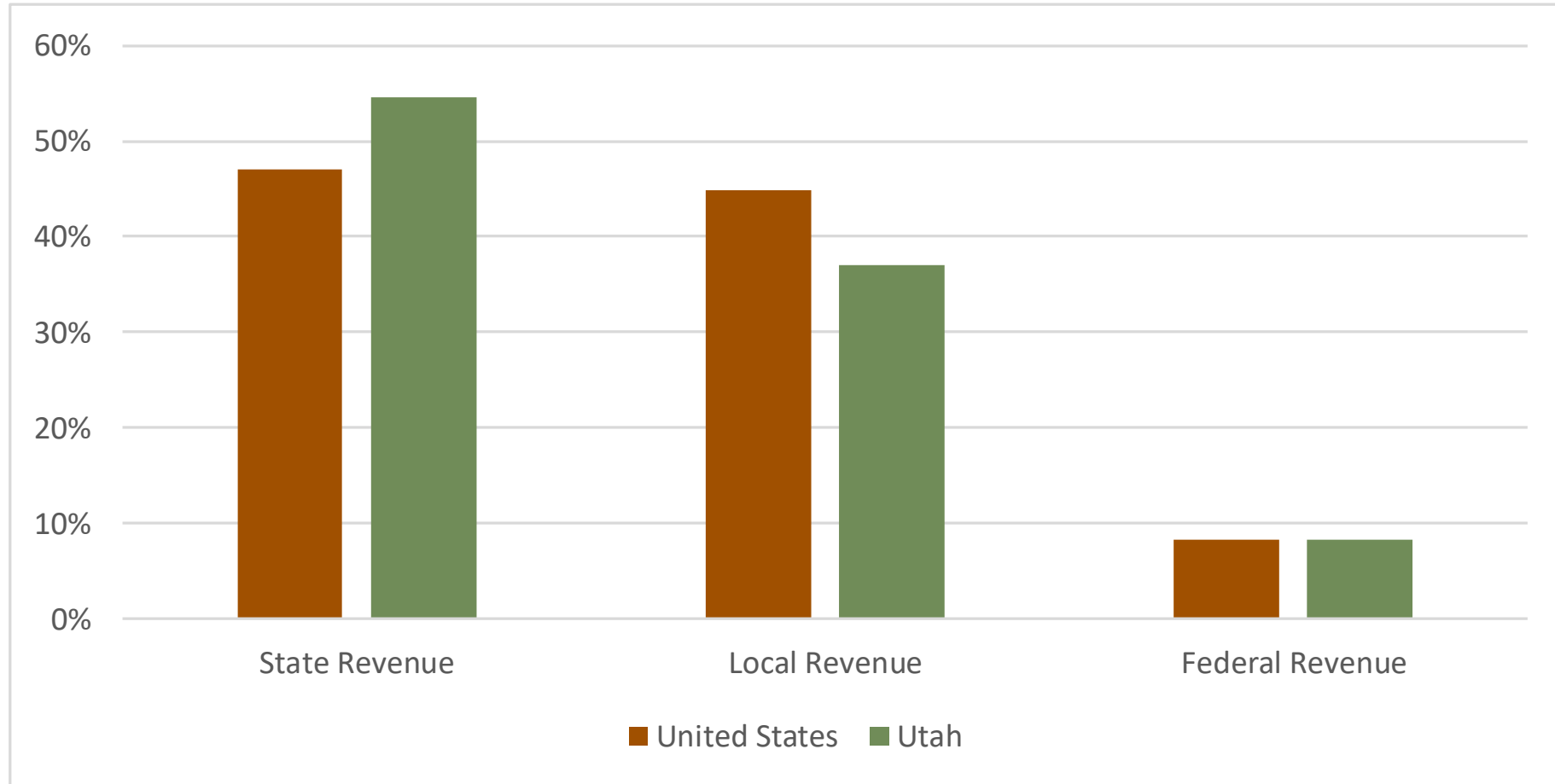
State Sources – 55%
Local Sources – 38%
Federal Sources – 7%

Does Not Include State Administration



REVENUE: UTAH COMPARED TO THE NATION

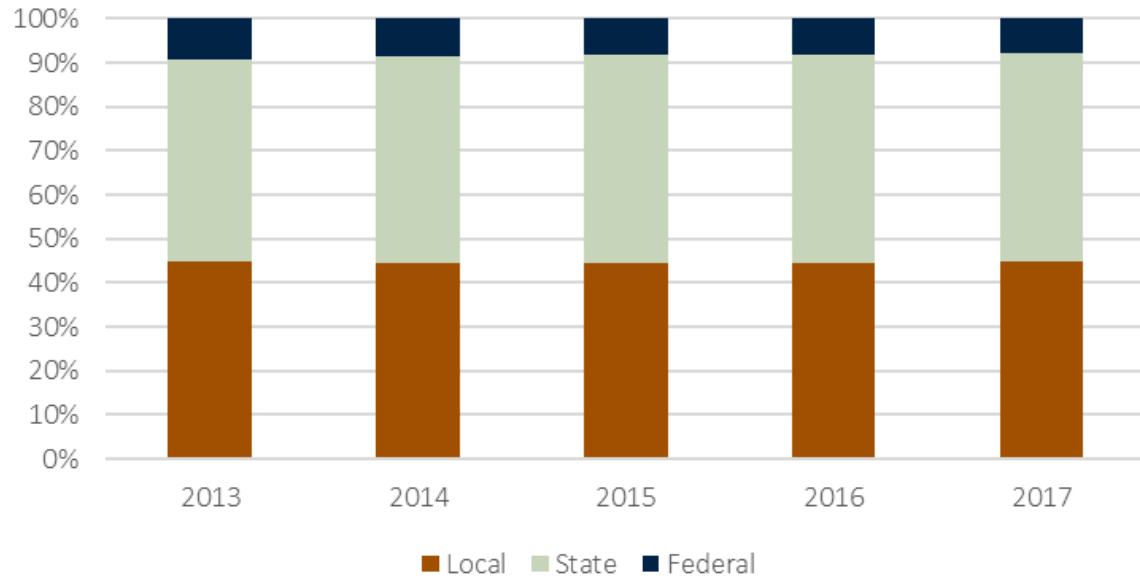
FY 2016 | PERCENT OF PUBLIC EDUCATION REVENUE BY SOURCE



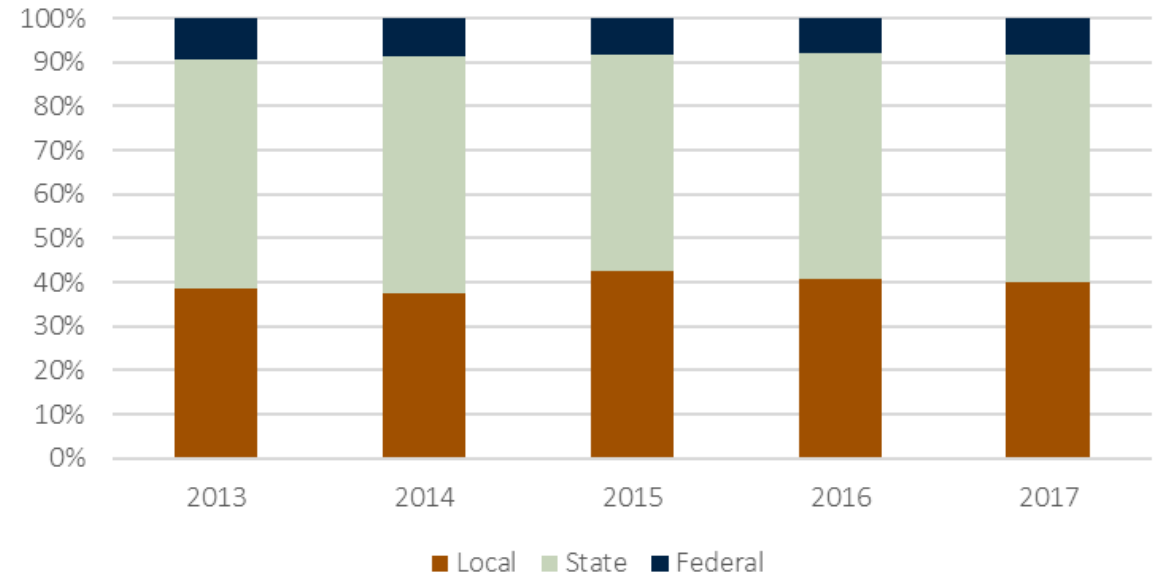
REVENUE: UTAH COMPARED TO THE NATION

FY 2013-2017 | PERCENT OF PUBLIC EDUCATION REVENUE BY SOURCE

United States



Utah



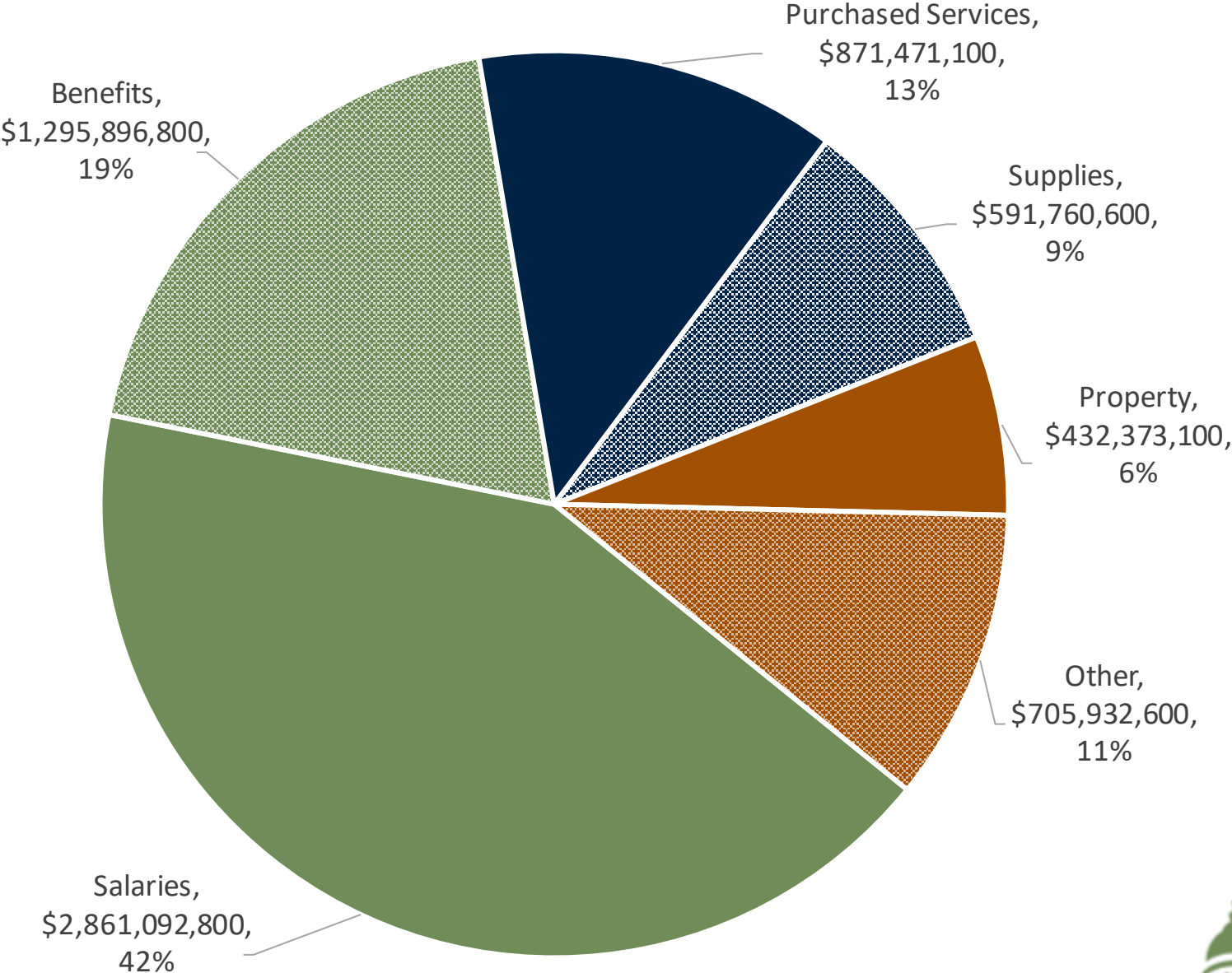
TOTAL EXPENDITURES AS REPORTED BY SCHOOL DISTRICTS & CHARTER SCHOOLS

FY 2018
\$6.8 Billion

Reported in AFR
Excludes State Agencies

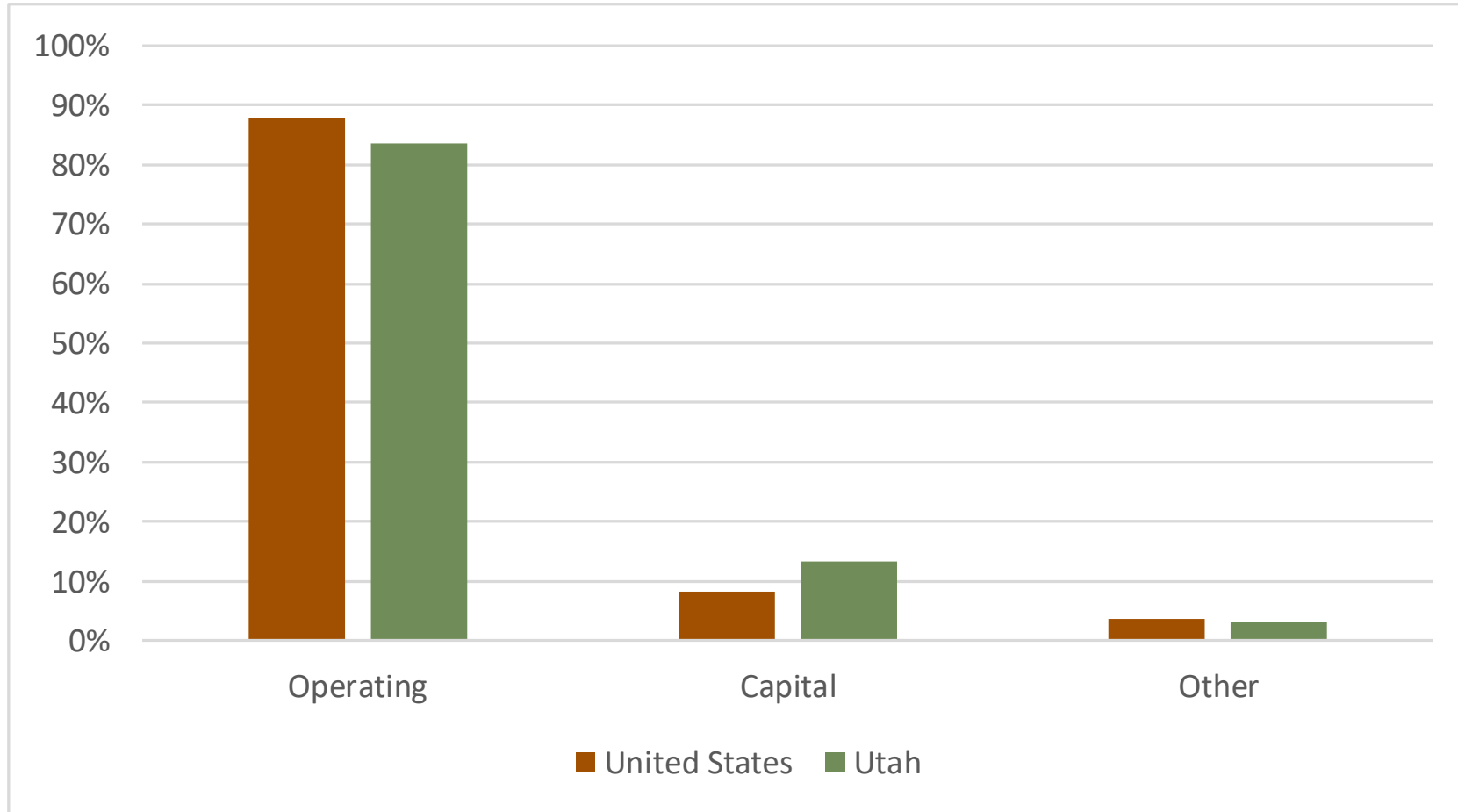
Employee Compensation – 61%

Does Not Include State Administration



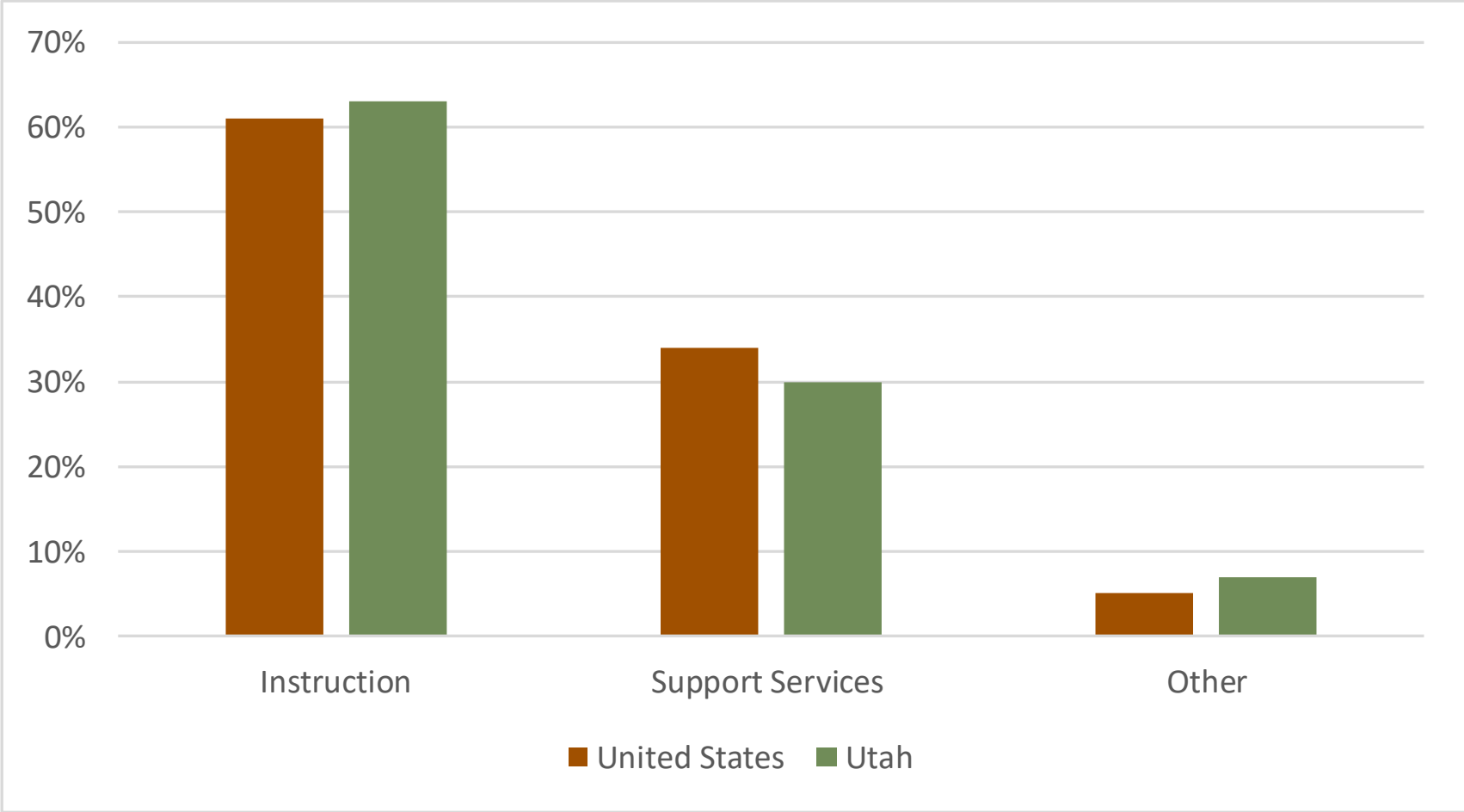
EXPENDITURES: UTAH COMPARED TO THE NATION

FY 2016 | PERCENT OF PUBLIC EDUCATION EXPENDITURES BY MAJOR CATEGORY



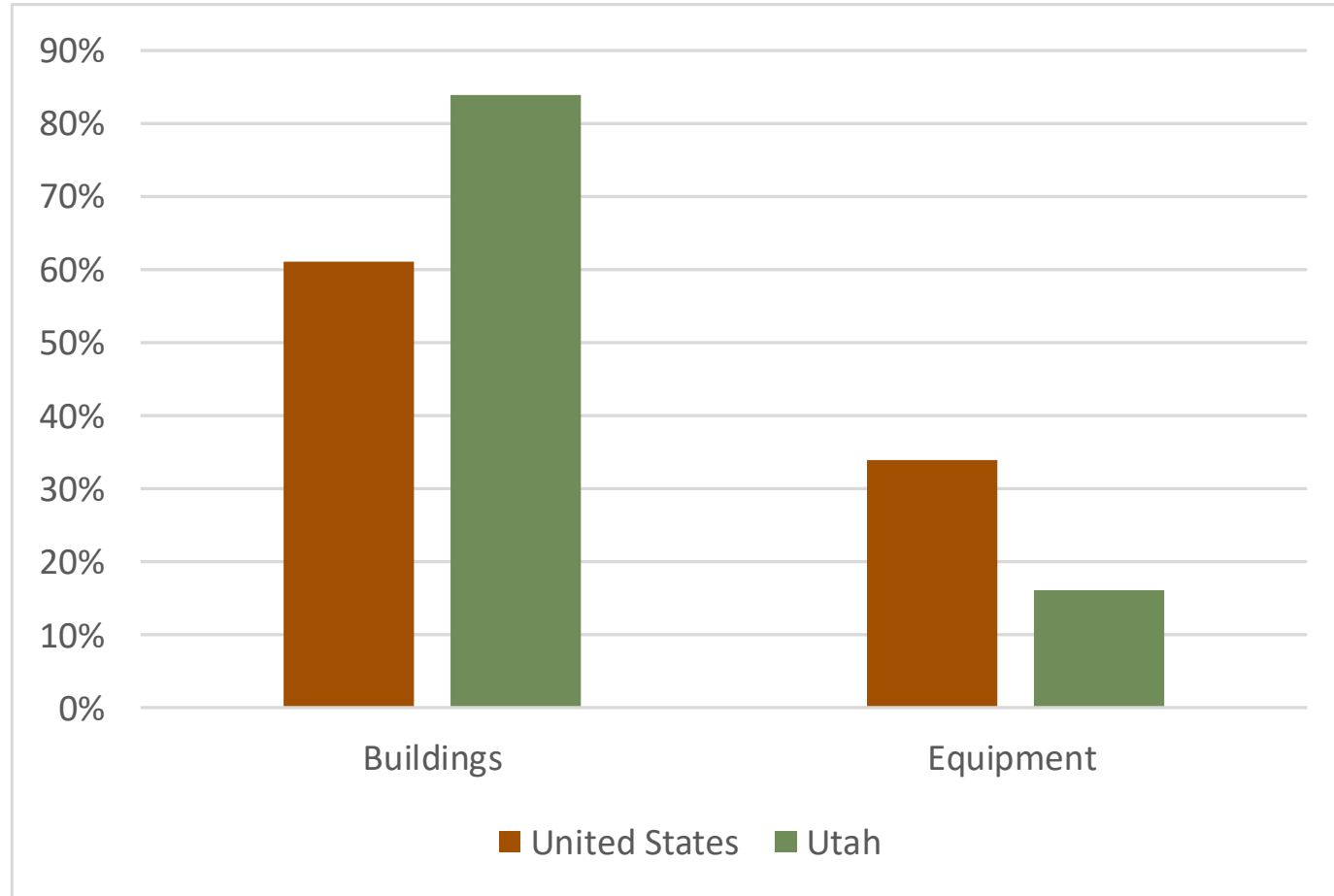
EXPENDITURES: UTAH COMPARED TO THE NATION

FY 2017 | OPERATING EXPENDITURES ON INSTRUCTION, SUPPORT SERVICES, OTHER



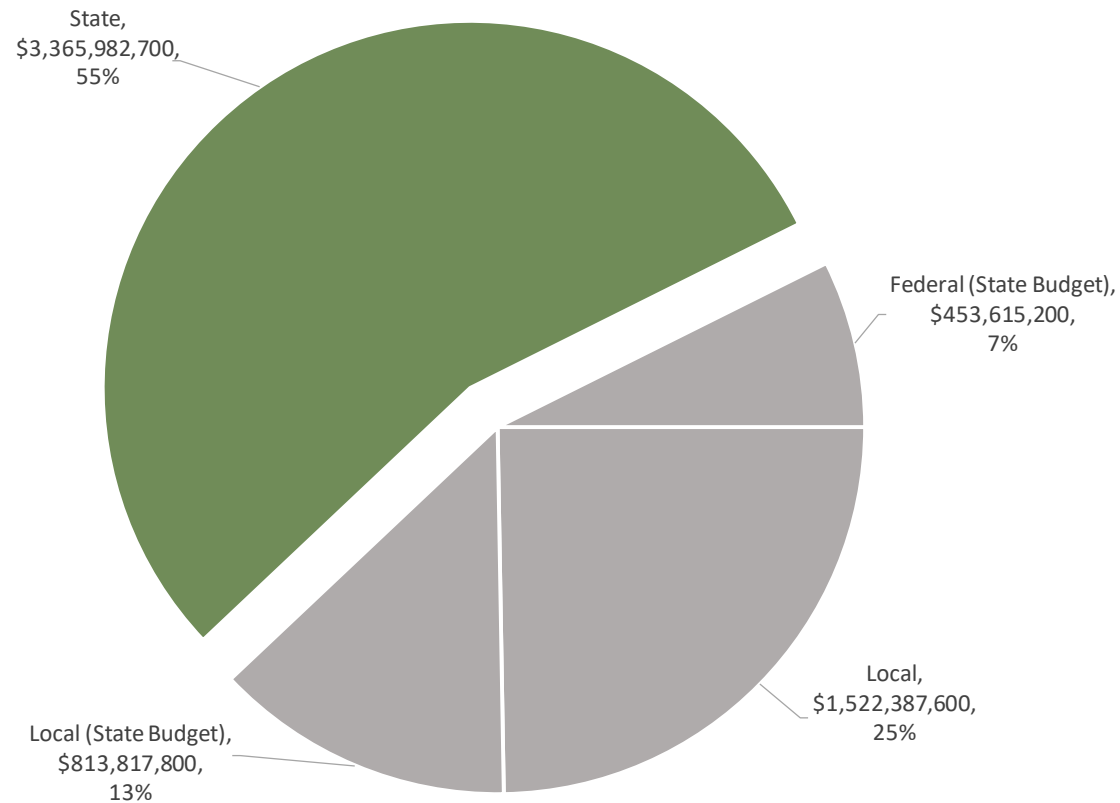
EXPENDITURES: UTAH COMPARED TO THE NATION

FY 2017 | CAPITAL EXPENDITURES ON BUILDINGS & EQUIPMENT



STATE FUNDING FOR PUBLIC EDUCATION

SUMMARY | STATE REVENUE ALLOCATED TO LOCAL EDUCATION AGENCIES (LEAS)

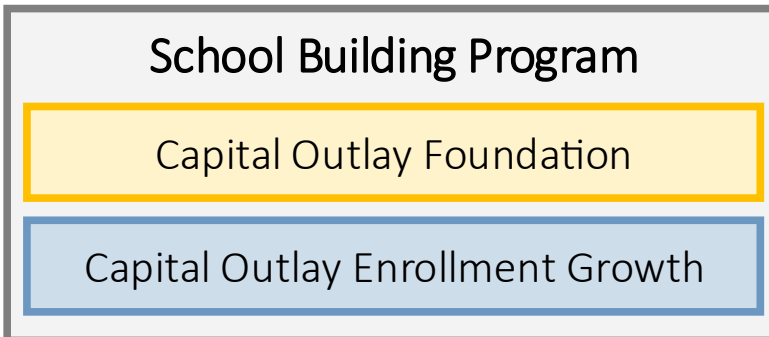
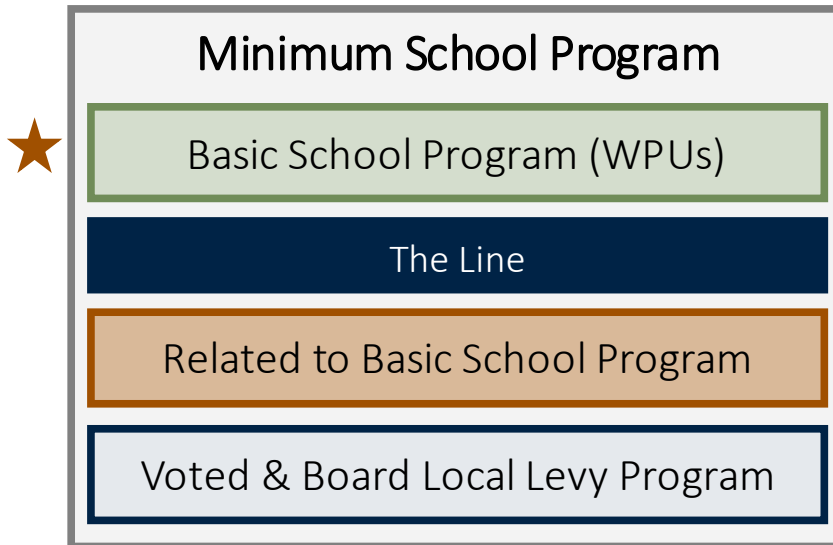


- Minimum School Program
 - Primary Source of State Funding to Locals
 - Include Weighted Pupil Unit (WPU) Programs
 - Multiple Programs to Equalize Local Property Tax Collections
- School Building Program
 - Minimum State Funding Programs for Capital
- State Board of Education
 - Receives State Funding Appropriation from Legislature
 - Executes Statutory Formulas or Determines Distribution by Rule
 - “Passes-Through” MSP/SBP/Other Funding to Locals



STATE FUNDING FOR PUBLIC EDUCATION

MINIMUM SCHOOL PROGRAM | THE BASIC SCHOOL PROGRAM



- Utah’s Foundation Funding Formula
 - Provides Majority of Operating Revenue to Locals
 - Weighted Pupil Unit (WPU)
 - Number of WPUs – Student/Program Counts (Statute)
 - WPU Value – Dollar Amount Paid per WPU (Legislature)
 - “Above-the-Line”
 - Fully Equalized
- State & Local Property Tax Interaction
 - Locals Must Impose Basic Levy to Participate
 - State Revenue Used to Equalize Local Property Tax
 - Based on Total Cost of Program for the Local Entity
 - How is Local Revenue Equalized?

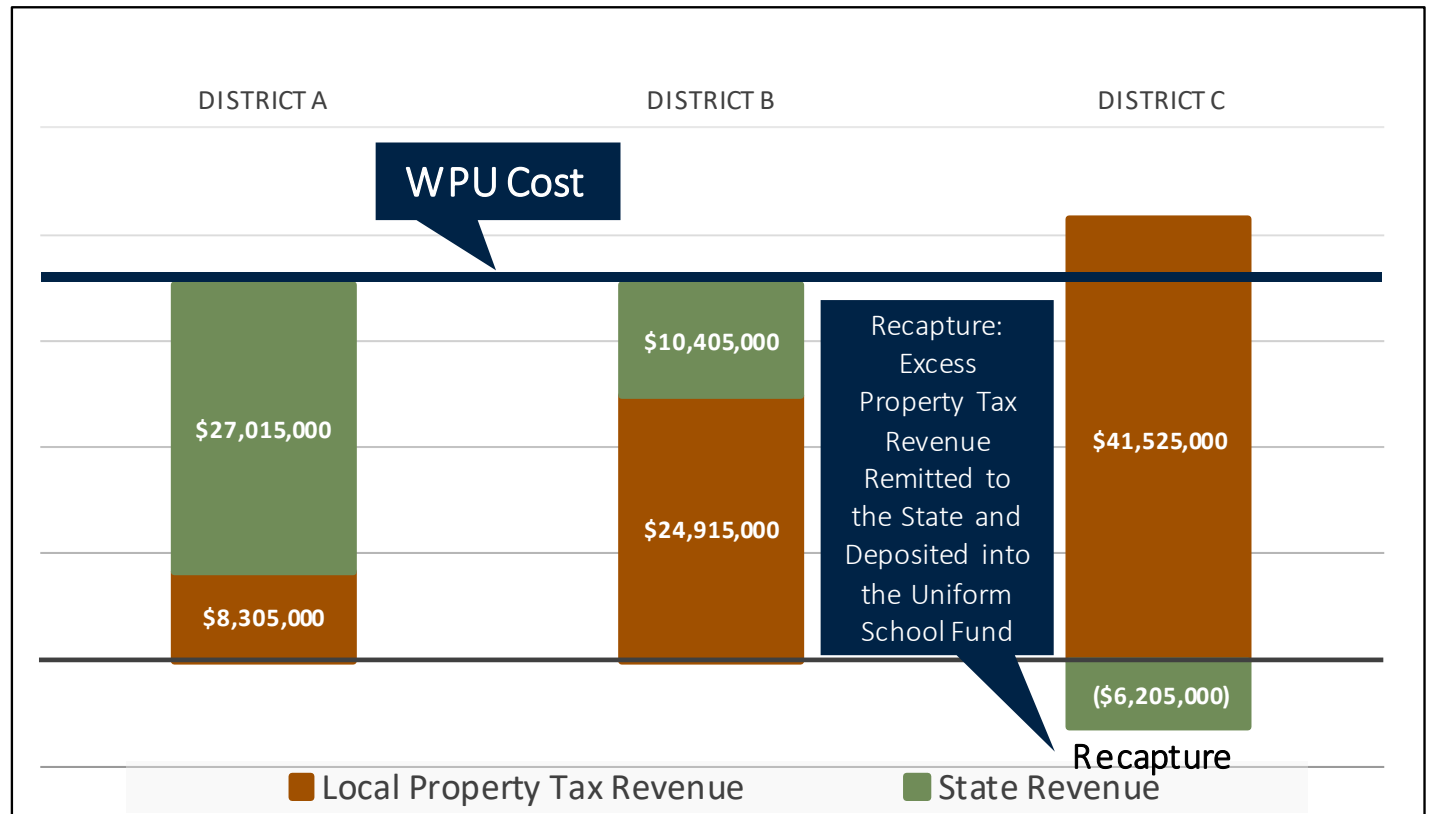
BASIC SCHOOL PROGRAM: FUNDING EQUALIZATION

Recapture

Tax proceeds that exceed the cost of the basic program “shall be paid into the Uniform School Fund as provided by law.” (53F-2-301)

Minimum School Program: Basic School Program Equalization
Basic Levy Revenue Equalization Example Using the Weighted Pupil Unit (WPU)

Cost	District A	District B	District C
WPU Value:	\$3,532	\$3,532	\$3,532
Number of WPUs:	10,000	10,000	10,000
Basic School Program (WPU) Cost:	\$35,320,000	\$35,320,000	\$35,320,000
Revenues			
Taxable Value of Property in District:	\$5,000,000,000	\$15,000,000,000	\$25,000,000,000
Basic Rate (Set by State):	0.001661	0.001661	0.001661
Local Property Tax Revenue	\$8,305,000	\$24,915,000	\$41,525,000
State Revenue	\$27,015,000	\$10,405,000	(\$6,205,000)



STATE BASIC RATE: “BASIC LEVY”

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. . . (53F-2-301.5)

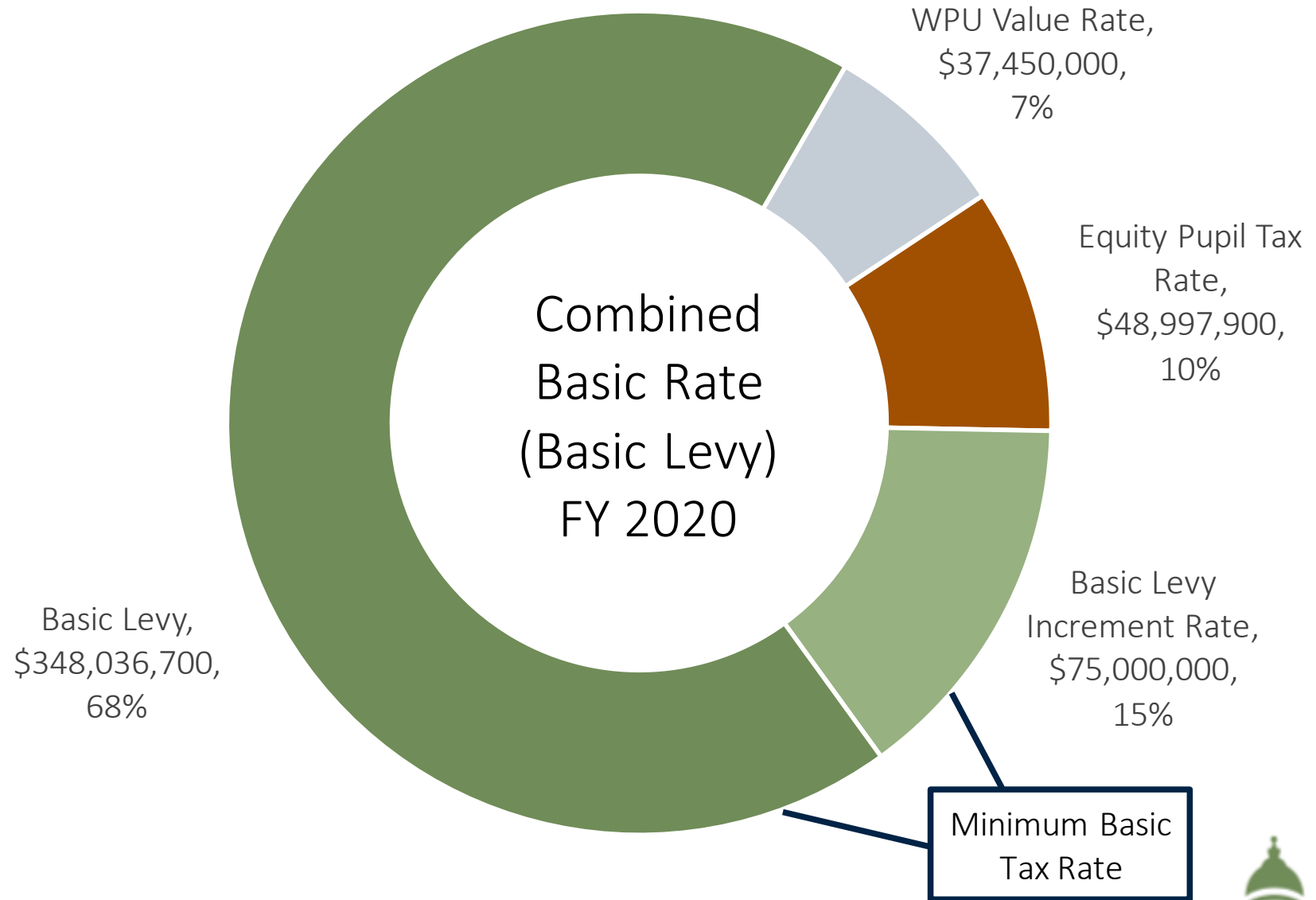
- Revenue Target Set by Legislature
 - Generates Est. \$509.5 M in FY 2020
 - \$46.6 M more than FY 2019
- Uniform Statewide Property Tax Rate
 - Estimated by Legislature – 0.001661
 - 2018 Equity Pupil Rate – Holds Rate at 0.0016 (FY 2022)
 - 2018 WPU Value Rate – Rate Floats Above 0.0016 for Inflation
 - Based on Prior Year State/Local Revenue Mix to Basic Program
 - Actual rate set by the Tax Commission – 0.001661
- Legislature Subject to Truth-in-Taxation Requirements, Not Locals
- Basic Rate has Four Components

THE BASIC LEVY: THE FOUR COMPONENTS FY 2020

Target: \$509,484,600

Components:

- Basic Levy
- Increment (2015) – \$75.0 M
- Equity Pupil (2018) – Difference Between Rate of 0.0016 Minus “Minimum Basic Tax Rate”
- WPU Value (2018) – Maintain State/Local Funding Ratio at 15% when WPU Value is Increased



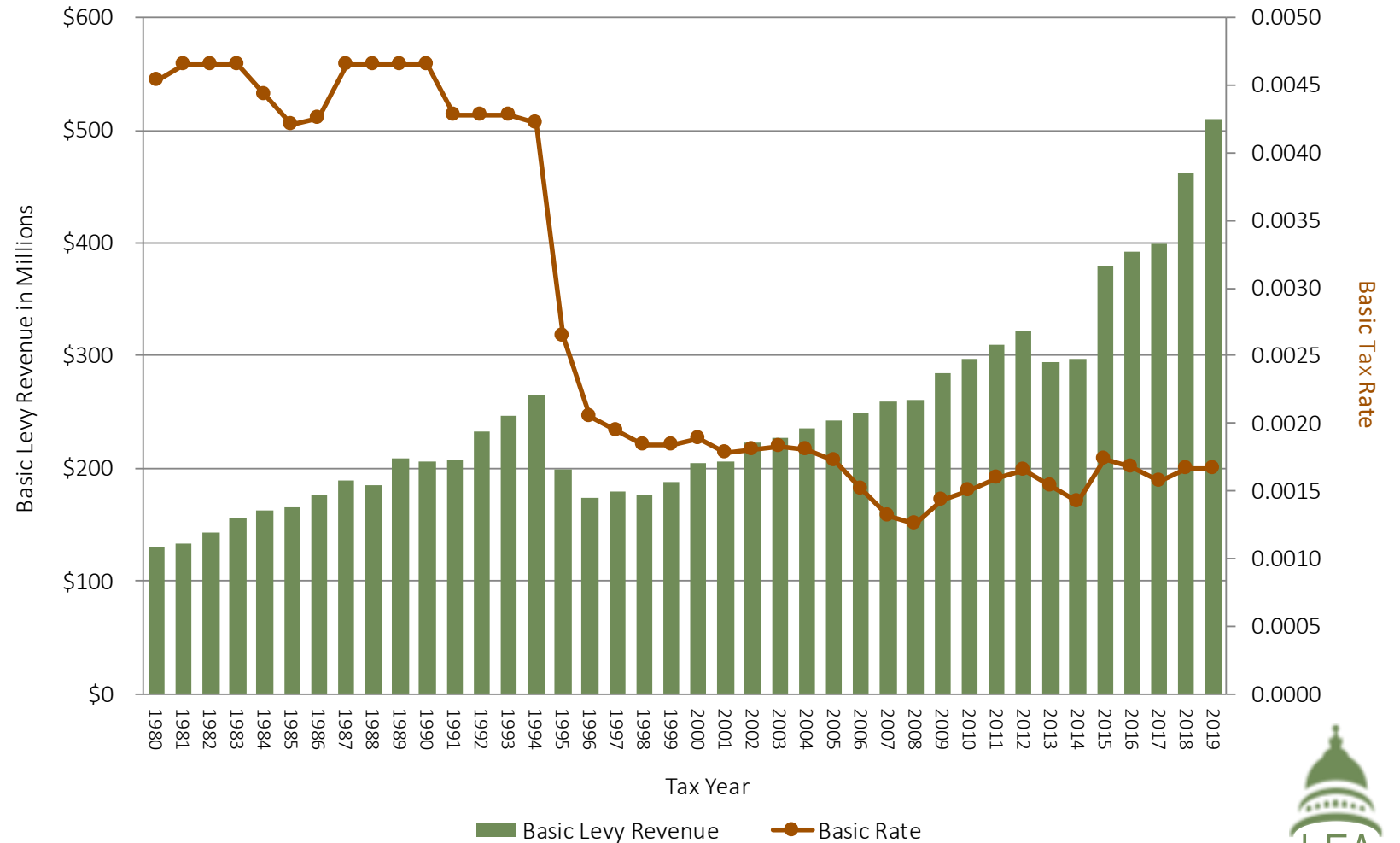
○ 1994-96 Rate Reductions:

- Account for Statewide Re-Valuation on Property by Local Assessors
- Change in the Primary Residence Exemption – from 32% to 45%

○ 2015 & 2018 Rate Increases:

- Legislative Efforts to Address State/Local Funding Mix in the Basic School Program

Minimum School Program - Basic Levy
 Total Basic Levy Revenue & Tax Rate - Tax Years 1980-2019 Est.
 Tax Year 2019 = Fiscal Year 2020

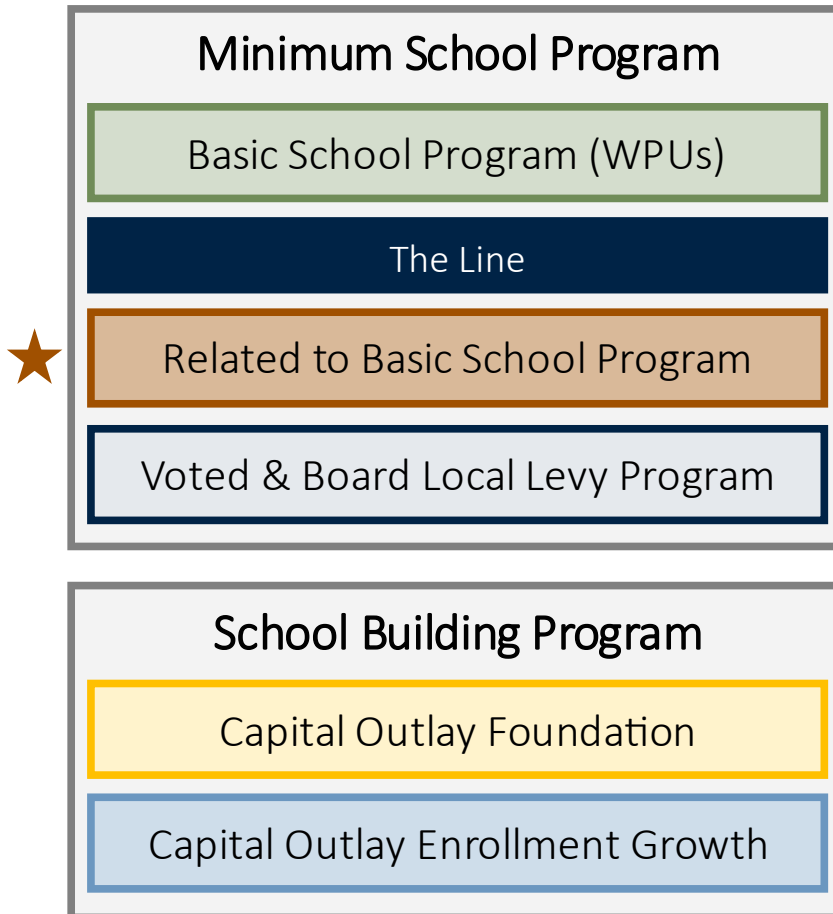


Source: Utah State Office of Education, Finance & Statistics Section
 Prepared by: Office of the Legislative Fiscal Analyst.



STATE FUNDING FOR PUBLIC EDUCATION

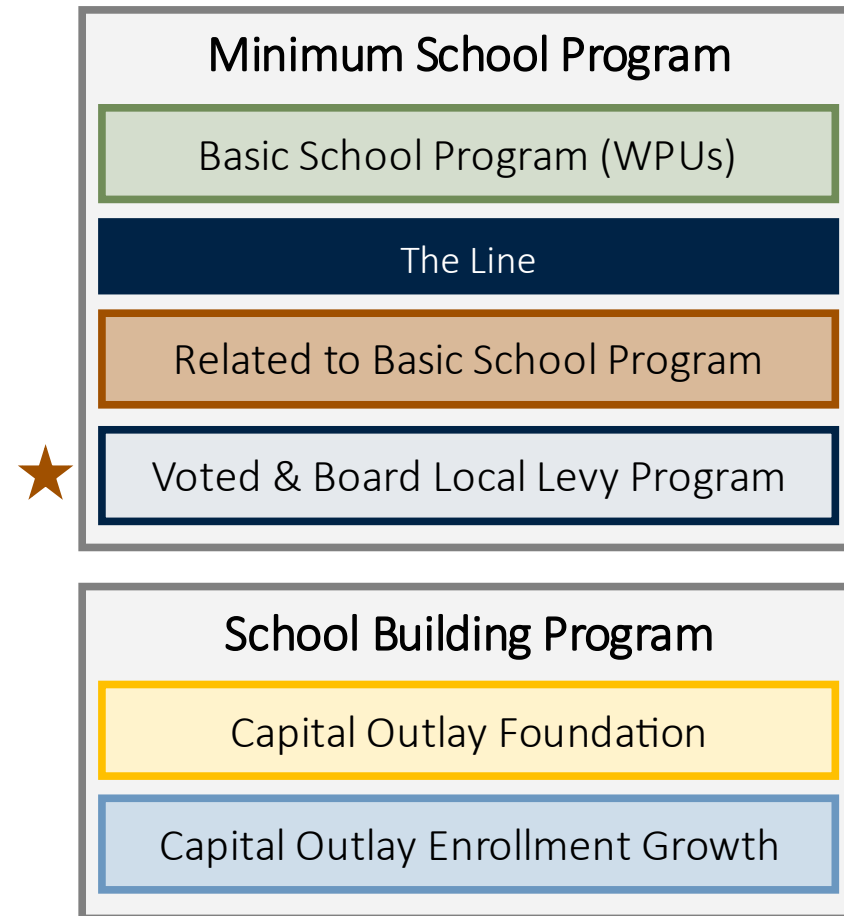
MINIMUM SCHOOL PROGRAM | THE RELATED TO BASIC SCHOOL PROGRAM



- Programs Support the Basic School Program
 - “Below-the-Line” not Funded by WPUs
 - Legislature Can Target Funding for Specific Groups (Students/Teachers) or Statewide Educational Need
 - Transportation, Teacher Salaries, Youth-in-Custody, etc.
 - Digital Teaching & Learning, Student Health & Counseling
- Programs not Universal to All LEAs
 - Locals Qualify (Formula) or Apply (Grant)
 - Fully Funded from State Education Funds

STATE FUNDING FOR PUBLIC EDUCATION

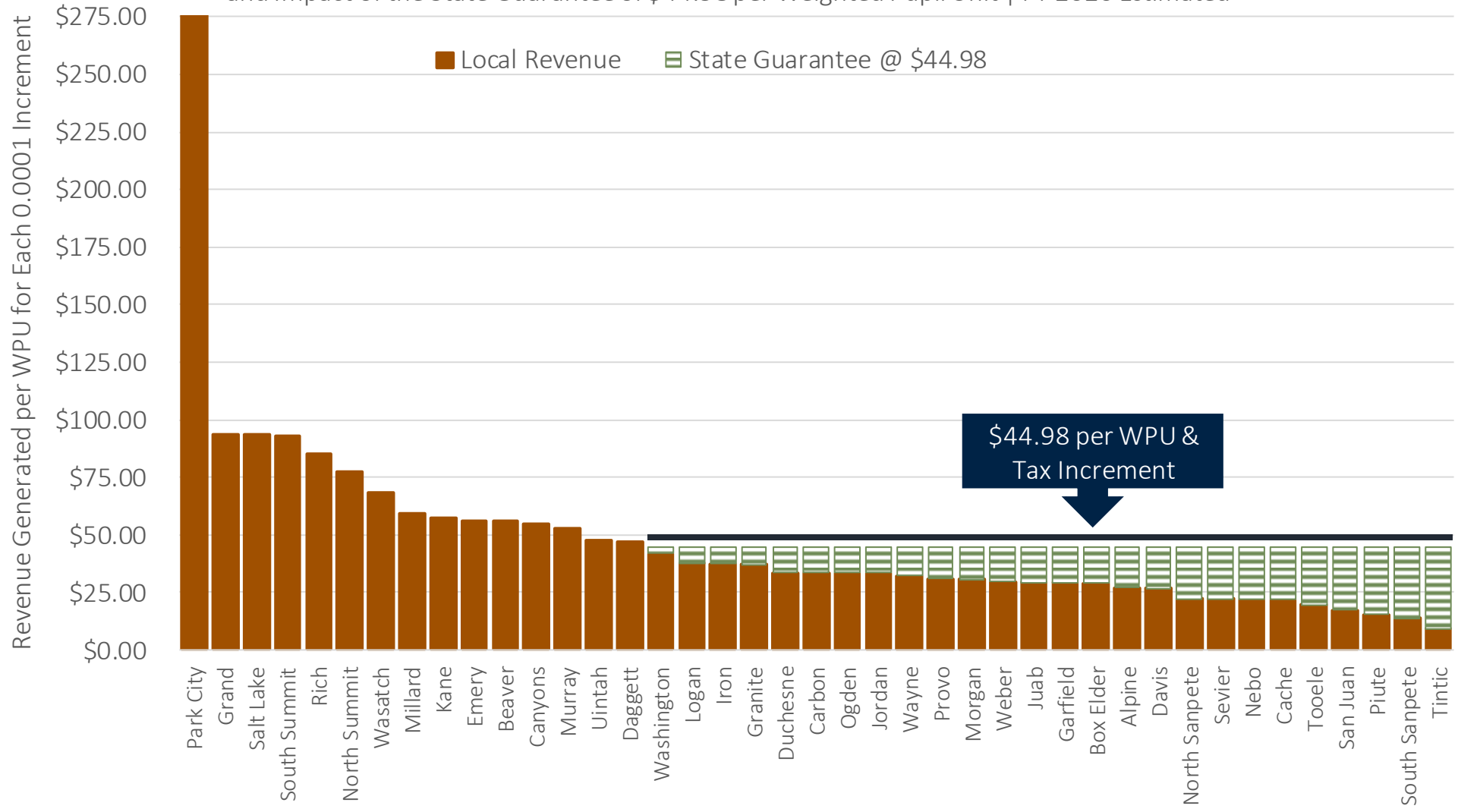
MINIMUM SCHOOL PROGRAM | VOTED & BOARD LOCAL LEVY PROGRAMS



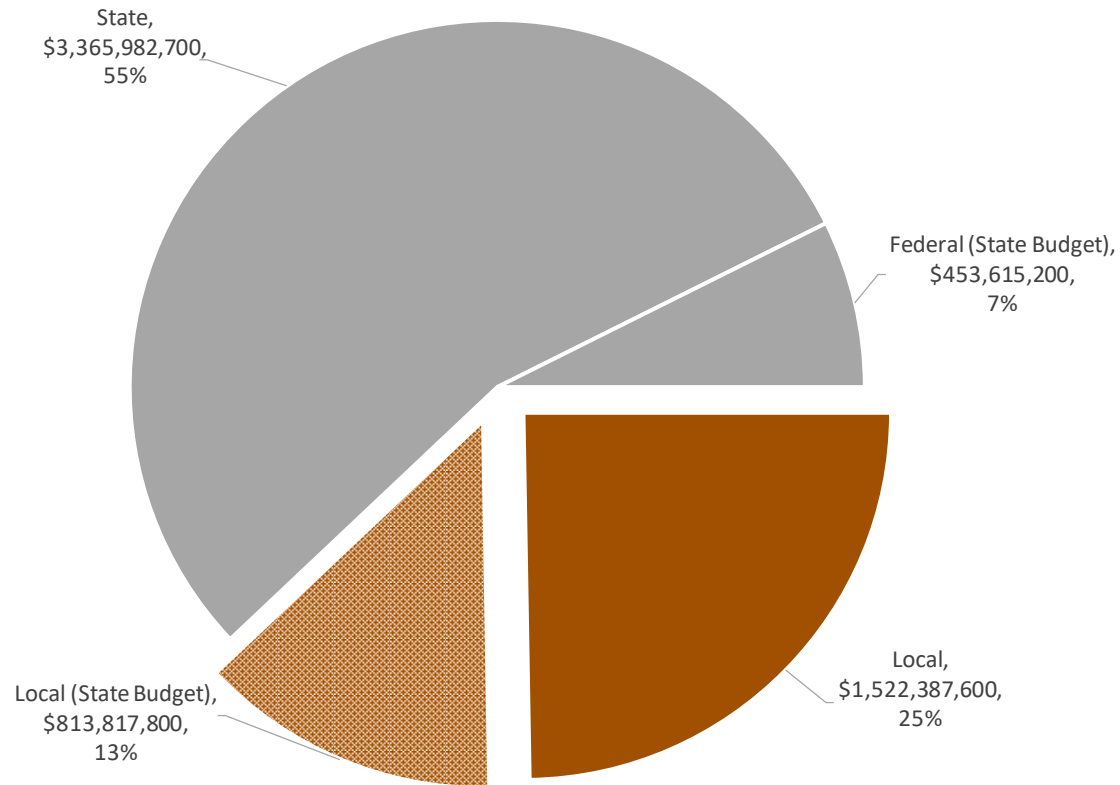
- State-Supported Property Tax Guarantee Programs
 - School District Must Levy Property Tax
 - Voted – by Vote of Electorate
 - Board – by Vote of Local Board of Education
 - To Qualify for State Funding, Revenue Collection Must Be Lower than State Guarantee Rate
- Legislature Sets the Guarantee Rate Annually
 - FY 2020 Rate = \$44.98
 - Guarantee is for Each WPU and Each Tax Increment
 - Up to 20 Tax Increments (Rate of 0.0001)
 - Partially Equalized (20 out of 45 Increments)

Voted & Board Local Levy Programs - State Guarantee

Estimated Local Property Tax Revenue Generated per Tax Increment (0.0001) per Weighted Pupil Unit and Impact of the State Guarantee of \$44.98 per Weighted Pupil Unit | FY 2020 Estimated



LOCAL FUNDING FOR PUBLIC EDUCATION SUMMARY | LOCALLY GENERATED REVENUES



- Primarily Property Tax Revenue
 - Legislature Authorized 5 Primary Levies
 - Basic Levy – Mandatory to Participate in MSP
 - Voted Local Levy – Optional
 - Board Local Levy – Optional
 - Capital Local Levy – Optional
 - Debt Service Levy – Optional
- Property Tax Revenue Stays with District
- State Formulas Use Local Collections in Distributing State Revenues
 - Basic, Voted, & Board
 - “Local (State Budget)” = Local Revenue in State Formulas
- Other Sources Included in “Local”
 - Student Fee Revenue, Tuition, etc.

LOCAL FUNDING FOR PUBLIC EDUCATION

PROPERTY TAX | RATES, STATUTORY CAPS, & AVAILABLE CAPACITY

School District Property Taxes - FY 2019			
Levy	Tax Rate Range	Statutory Cap	Estimated Capacity in Millions
Basic	0.001661	N/A	N/A
Voted	0.0 to 0.002140	0.002000	\$234.6
Board	0.000249 to 0.002749	0.002500	\$275.1
Capital	0.000122 to 0.003586	0.003000	\$546.1
Debt Service	0.0 to 0.003204	N/A	N/A
Total			\$1,055.8

Source: Utah State Board of Education, Estimated Assessed Valuations and Final Approved School District Tax Rates, Tax Year 2018|FY 2018-19. Under-cap estimates done by the Office of the Legislative Fiscal Analyst.

- Tax Rates Determined by Local Boards of Education
 - Legislature Sets Maximum Rate in Statute
 - No Cap on Debt Service Rate | Rate Set to Repay Debt
 - Some Districts May Exceed Cap Through Certified Tax Rate Process to Generate Prior-Year Revenue Amount
 - Revenue Generated Varies by District Based on Taxable Value of Property
- Most Tax Rates Lower than Statutory Caps
 - Est. \$1.1 Billion Available Capacity in FY 2019
 - See “School District Property Tax Revenues” for Detail by School District



School District Property Tax Revenues
Estimated Remaining Capacity Under Statutory Caps
 Scenarios by Taxing Levy: Voted Local Levy, Board Local Levy, and Capital Local Levy
 FY 2019 Tax Rates | FY 2019 Taxable Value | Tax Year 2018

	CDC Projected Total Taxable Values - FY 19	Voted Local Levy			Board Local Levy			Capital Local Levy			Estimated Under-Cap Revenue Total
		Tax Rate Capped at: 0.002000	Estimated Under Cap		Tax Rate Capped at: 0.002500	Estimated Under Cap		Tax Rate Capped at: 0.003000	Estimated Under Cap		
			Tax Rate Capacity	Revenue		Tax Rate Capacity	Revenue		Tax Rate Capacity	Revenue	
Alpine	\$26,267,121,277	0.001188	0.000812	\$21,328,902	0.001036	0.001464	\$38,455,066	0.000550	0.002450	\$64,354,447	\$124,138,415
Beaver	1,395,041,762	0.000930	0.001070	1,492,695	0.001419	0.001081	1,508,040	0.000898	0.002102	2,932,378	5,933,113
Box Elder	4,513,924,347	0.000578	0.001422	6,418,800	0.002334	0.000166	749,311	0.002410	0.000590	2,663,215	9,831,327
Cache	5,115,097,718	0.001345	0.000655	3,350,389	0.001348	0.001152	5,892,593	0.000409	0.002591	13,253,218	22,496,200
Carbon	1,758,843,603	0.001108	0.000892	1,568,888	0.002749	(0.000249)	0	0.001857	0.001143	2,010,358	3,579,247
Daggett	305,332,833	0.000000	0.002000	610,666	0.001554	0.000946	288,845	0.000780	0.002220	677,839	1,577,349
Davis	24,033,363,117	0.000935	0.001065	25,595,532	0.001806	0.000694	16,679,154	0.000655	0.002345	56,358,237	98,632,922
Duchesne	2,655,276,162	0.001624	0.000376	998,384	0.001570	0.000930	2,469,407	0.003586	(0.000586)	0	3,467,791
Emery	2,123,893,802	0.001612	0.000388	824,071	0.002065	0.000435	923,894	0.000453	0.002547	5,409,558	7,157,522
Garfield	676,509,989	0.001772	0.000228	154,244	0.002488	0.000012	8,118	0.000557	0.002443	1,652,714	1,815,076
Grand	2,000,917,189	0.000400	0.001600	3,201,468	0.002319	0.000181	362,166	0.001426	0.001574	3,149,444	6,713,077
Granite	29,384,492,553	0.001178	0.000822	24,154,053	0.002256	0.000244	7,169,816	0.000668	0.002332	68,524,637	99,848,506
Iron	4,410,882,564	0.000783	0.001217	5,368,044	0.001006	0.001494	6,589,859	0.000978	0.002022	8,918,805	20,876,707
Jordan	21,860,099,579	0.001600	0.000400	8,744,040	0.000249	0.002251	49,207,084	0.001969	0.001031	22,537,763	80,488,887
Juab	1,023,460,571	0.000394	0.001606	1,643,678	0.002421	0.000079	80,853	0.002465	0.000535	547,551	2,272,082
Kane	1,466,514,078	0.000952	0.001048	1,536,907	0.001622	0.000878	1,287,599	0.000928	0.002072	3,038,617	5,863,123
Millard	2,618,596,047	0.000756	0.001244	3,257,533	0.002333	0.000167	437,306	0.001793	0.001207	3,160,645	6,855,484
Morgan	1,249,732,438	0.000000	0.002000	2,499,465	0.001986	0.000514	642,362	0.002072	0.000928	1,159,752	4,301,579
Nebo	9,305,681,377	0.001213	0.000787	7,323,571	0.001714	0.000786	7,314,266	0.001193	0.001807	16,815,366	31,453,203
No. Sanpete	759,492,457	0.001363	0.000637	483,797	0.001826	0.000674	511,898	0.000771	0.002229	1,692,909	2,688,603
No. Summit	1,310,957,332	0.000211	0.001789	2,345,303	0.002426	0.000074	97,011	0.000768	0.002232	2,926,057	5,368,370
Park City	15,464,537,373	0.001130	0.000870	13,454,148	0.001206	0.001294	20,011,111	0.000328	0.002672	41,321,244	74,786,503
Piute	133,998,377	0.001600	0.000400	53,599	0.000400	0.002100	281,397	0.000122	0.002878	385,647	720,643
Rich	990,795,923	0.001238	0.000762	754,986	0.001193	0.001307	1,294,970	0.000198	0.002802	2,776,210	4,826,167
San Juan	796,174,844	0.001600	0.000400	318,470	0.001672	0.000828	659,233	0.002831	0.000169	134,554	1,112,256
Sevier	1,522,973,126	0.001200	0.000800	1,218,379	0.001771	0.000729	1,110,247	0.001455	0.001545	2,352,993	4,681,619
So. Sanpete	675,933,318	0.001481	0.000519	350,809	0.001669	0.000831	561,701	0.001762	0.001238	836,805	1,749,315
So. Summit	2,154,724,462	0.000600	0.001400	3,016,614	0.002286	0.000214	461,111	0.001500	0.001500	3,232,087	6,709,812
Tintic	75,363,434	0.002140	(0.000140)	0	0.001248	0.001252	94,355	0.001402	0.001598	120,431	214,786
Tooele	4,419,679,426	0.001600	0.000400	1,767,872	0.002000	0.000500	2,209,840	0.001798	0.001202	5,312,455	9,290,166
Uintah	4,628,034,142	0.000000	0.002000	9,256,068	0.002519	(0.000019)	0	0.002744	0.000256	1,184,777	10,440,845
Wasatch	5,976,989,896	0.001600	0.000400	2,390,796	0.001999	0.000501	2,994,472	0.001163	0.001837	10,979,730	16,364,998
Washington	16,848,368,634	0.001100	0.000900	15,163,532	0.001222	0.001278	21,532,215	0.000268	0.002732	46,029,743	82,725,490
Wayne	360,282,453	0.001380	0.000620	223,375	0.000400	0.002100	756,593	0.001080	0.001920	691,742	1,671,711
Weber	11,897,489,595	0.000963	0.001037	12,337,697	0.001084	0.001416	16,846,845	0.001181	0.001819	21,641,534	50,826,076
Salt Lake	25,970,566,809	0.000734	0.001266	32,878,738	0.001724	0.000776	20,153,160	0.000950	0.002050	53,239,662	106,271,559
Ogden	4,678,626,925	0.001603	0.000397	1,857,415	0.001632	0.000868	4,061,048	0.001880	0.001120	5,240,062	11,158,525
Provo	6,344,643,681	0.001094	0.000906	5,748,247	0.001682	0.000818	5,189,919	0.001353	0.001647	10,449,628	21,387,794
Logan	2,785,142,333	0.001600	0.000400	1,114,057	0.002308	0.000192	534,747	0.002217	0.000783	2,180,766	3,829,571
Murray	4,023,757,727	0.001786	0.000214	861,084	0.000835	0.001665	6,699,557	0.000646	0.002354	9,471,926	17,032,566
Canyons	22,203,944,917	0.001600	0.000400	8,881,578	0.001196	0.001304	28,953,944	0.000895	0.002105	46,739,304	84,574,826
Totals	\$276,187,258,190			\$234,547,893			\$275,081,112			\$546,104,809	\$1,055,733,814

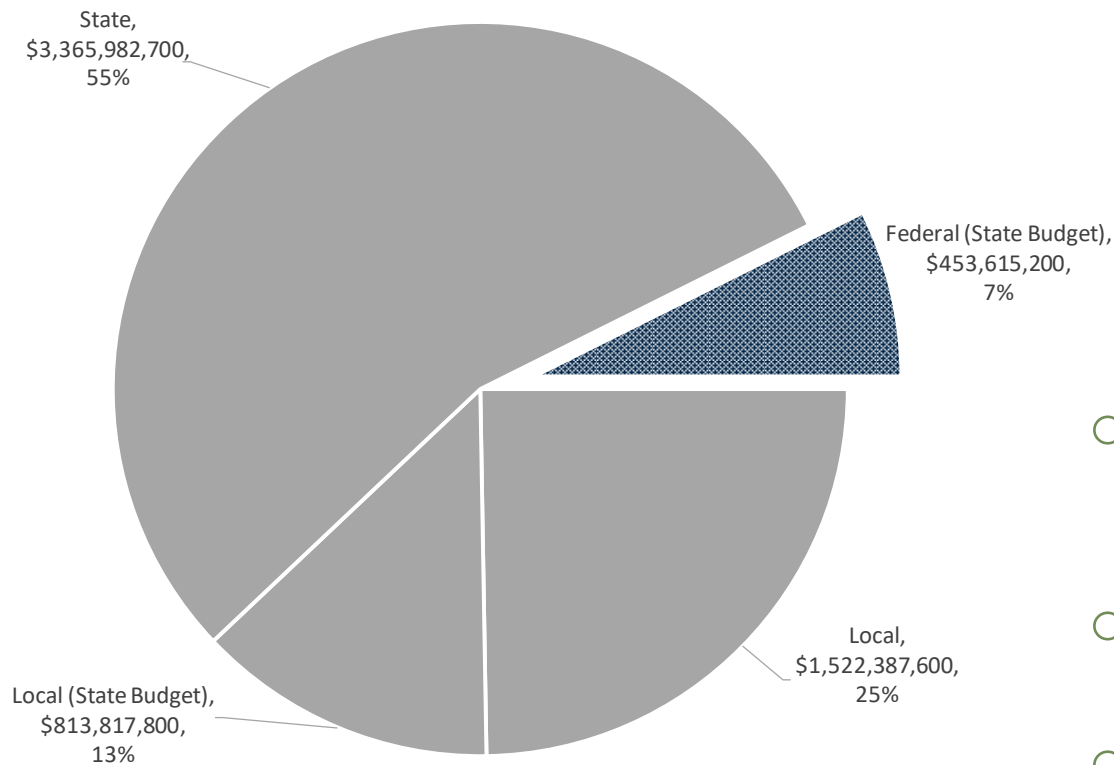
Source: Utah State Board of Education, Estimated Assessed Valuations and Final Approved School District Tax Rates, Tax Year 2018 -- FY 2018-19.

Under-cap estimates calculated by the Office of the Legislative Fiscal Analyst.



FEDERAL FUNDING FOR PUBLIC EDUCATION

SUMMARY | FEDERAL REVENUE SUPPORTING EDUCATION PROGRAMS



- Federal Funds Primarily Support Five Functions
 - Special Education
 - Child Nutrition Programs
 - Title Programs (Economically Disadvantaged)
 - Vocational Education
 - Teacher Quality
- Some Additional Minor Grants
 - Adult Ed, English Learners, State Assessments, etc.)
- State Board Receives Funding and Distributes to Locals
- Comparatively Utah Receives Fewer Federal Funds as a Percent of Budget



CONSTITUTIONAL EARMARK OF INCOME TAX

Tax Restructuring and Equalization Task Force
September 5, 2019



UTAH'S INCOME TAX EARMARK

UTAH CONST. ART. X, SEC. 5(5)

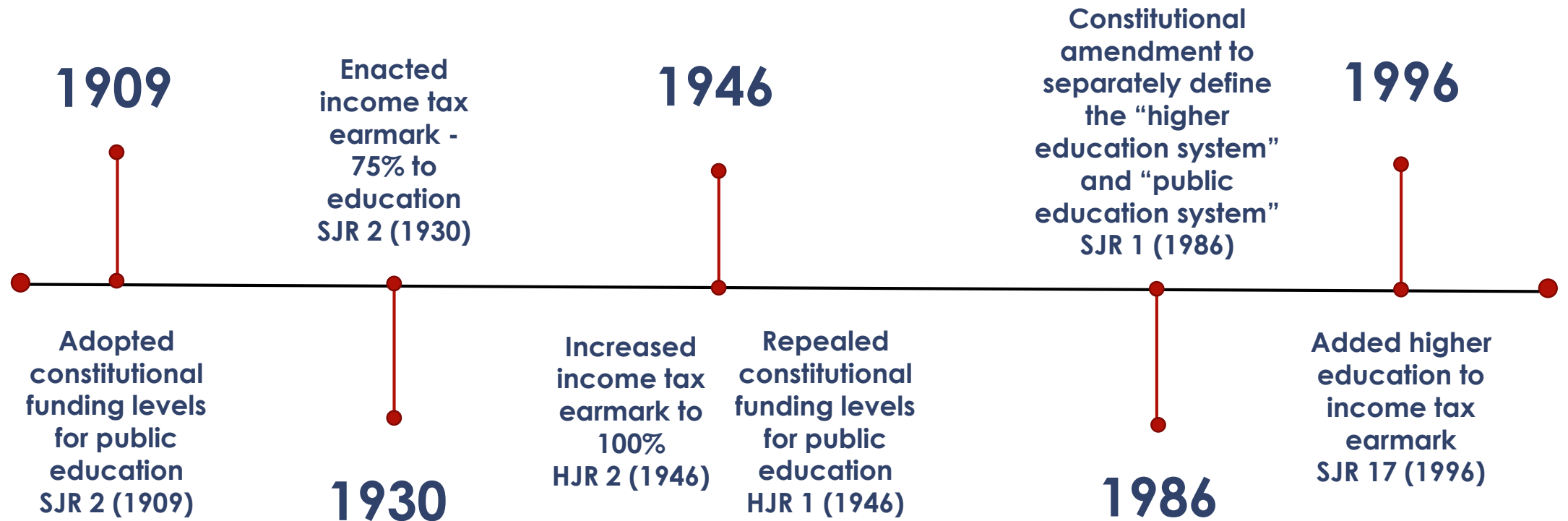
“All revenue from taxes on intangible property or from a tax on income shall be used to support the systems of public education and higher education as defined in Article X, Section 2.”

ARTICLE X, SECTION 2

“The public education system shall include all public elementary and secondary schools and such other schools and programs as the Legislature may designate. The higher education system shall include all public universities and colleges and such other institutions and programs as the Legislature may designate.

Public elementary and secondary schools shall be free, except the Legislature may authorize the imposition of fees in the secondary schools.”

TIMELINE OF UTAH'S CONSTITUTIONAL INCOME TAX EARMARK



LANGUAGE OVER TIME

- 1930** “All revenue received from taxes on income or from taxes on intangible property shall be allocated as follows: 75 per cent thereof to the State district school fund and 25 per cent thereof to the State general fund and the State levies for such purposes shall be reduced annually in proportion to the revenues so allocated; provided that any surplus above the revenue required for the State district school fund as provided in Section 7 of this Article shall be paid into the State general fund.”
- 1946** “All revenue received from taxes on income or from taxes on intangible property shall be allocated to the support of the public school system as defined in Article X, Section 2 of this Constitution.”
- 1996**
(current) “All revenue received from taxes on income or from taxes on intangible property shall be allocated to the support of the public education system and the higher education system as defined in Article X, Section 2 of this Constitution.”

EDUCATION-RELATED INCOME TAX EARMARKS IN OTHER STATES

- 44 states have a state income tax
- 9 states earmark some portion of income tax revenue for education
- 3 states earmark income tax revenue for education by state constitution
- Amounts vary
- Other states earmark portions of other revenue sources for education

EDUCATION-RELATED INCOME TAX EARMARKS IN OTHER STATES

State	Earmark Description	Citation	Percentage Dedicated, 2005 (NCSL)
Utah*	100% of income tax revenue to public and higher education	Utah Const. Art. XIII, sec. 5	100%
Alabama	Nearly all income tax revenue dedicated to public and higher education	Ala. Code § 40-18-58	97.9%
Michigan	A percentage of gross income tax revenue for school districts, higher education, and school employee retirement	Mich. Comp. Laws § 206.51	32.5%
Oklahoma	A portion of income tax revenue earmarked for teacher retirement and education reform programs	Okla. Stat. Tit. 69 §§ 2352; 2355.1B	Corporate: 20.3% Individual: 12.1%
New York	An amount necessary to fund the School Tax Relief Program (provides eligible homeowners relief from property taxes)	N.Y. Law § 97-rrr	10.9%
Ohio*	A portion of income tax revenue collected by the state is returned to local school districts	Ohio Const. Art. XII, sec. 9	Unclear, less than 9%
Colorado*	0.033% of taxable income for public education	Colo. Const. Art. IX, sec. 17	7.8%
Arkansas	Portion of corporate income tax revenue for improvement of state post-secondary technical colleges and schools	Ark. Code §§ 19-6-301; 26-51-205	4.2%
Idaho	50% of income tax paid on state lottery winnings for public school substance abuse programs	Idaho Code § 40-18-58	0.5%

*earmark provided by state constitution

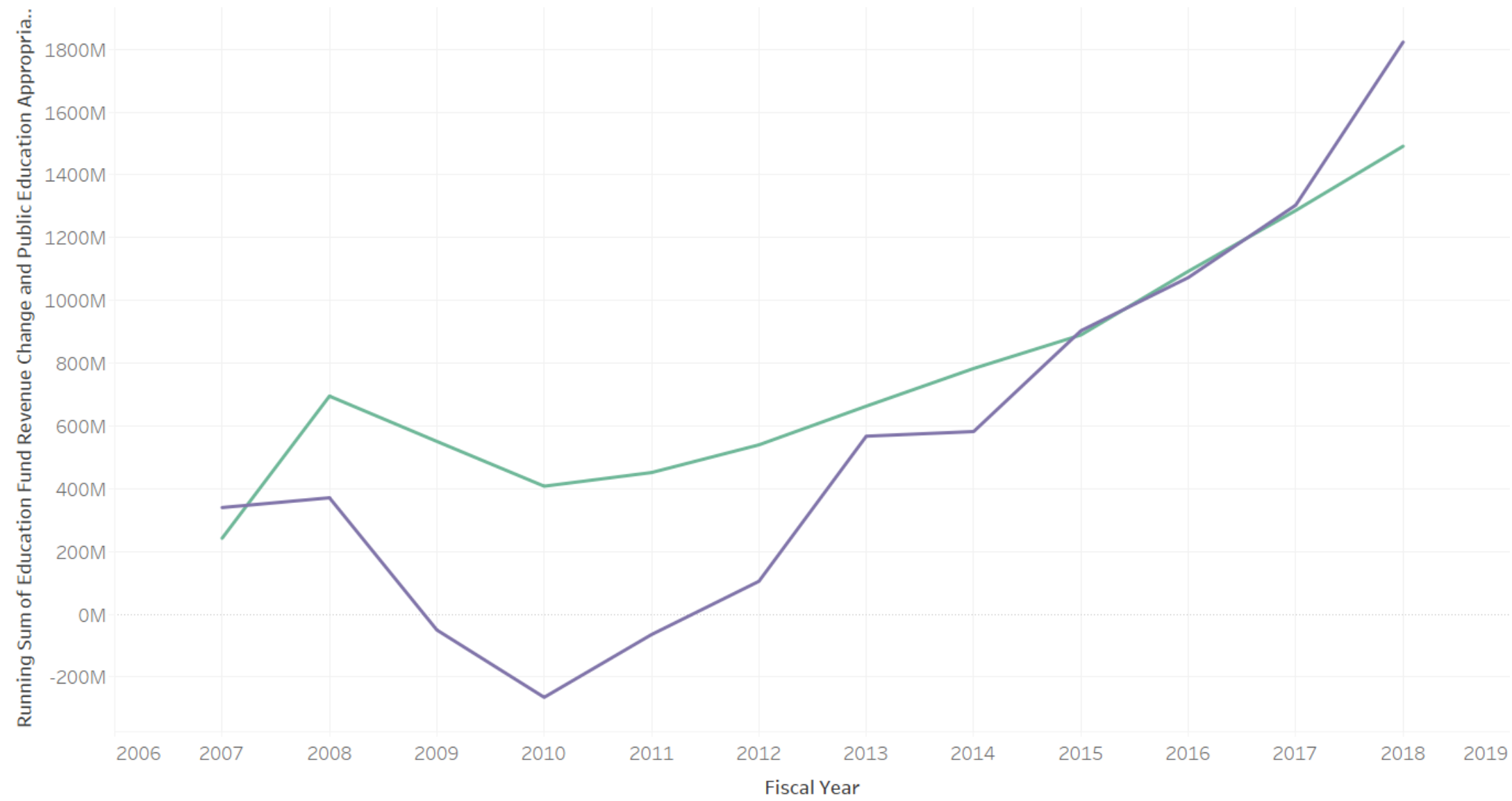
**PAST
PROPOSALS
NOT
ADOPTED
(1997 TO PRESENT)**

- **2019 General Session S.J.R. 3 (McCay/Stratton)**
 - Allow income tax revenue to be used to provide services for the poor, disabled, and elderly
- **2016 General Session S.J.R. 4 (Dabakis)**
 - Repeal 1996 amendment by prohibiting use of income tax revenue for higher education

HISTORICAL IMPACT OF EDUCATION EARMARK

- Historically there has not been a strong correlation between income tax revenue changes and public education appropriation changes.
- Policymakers smooth revenue volatility to provide relatively stable funding for public education throughout the business cycle.

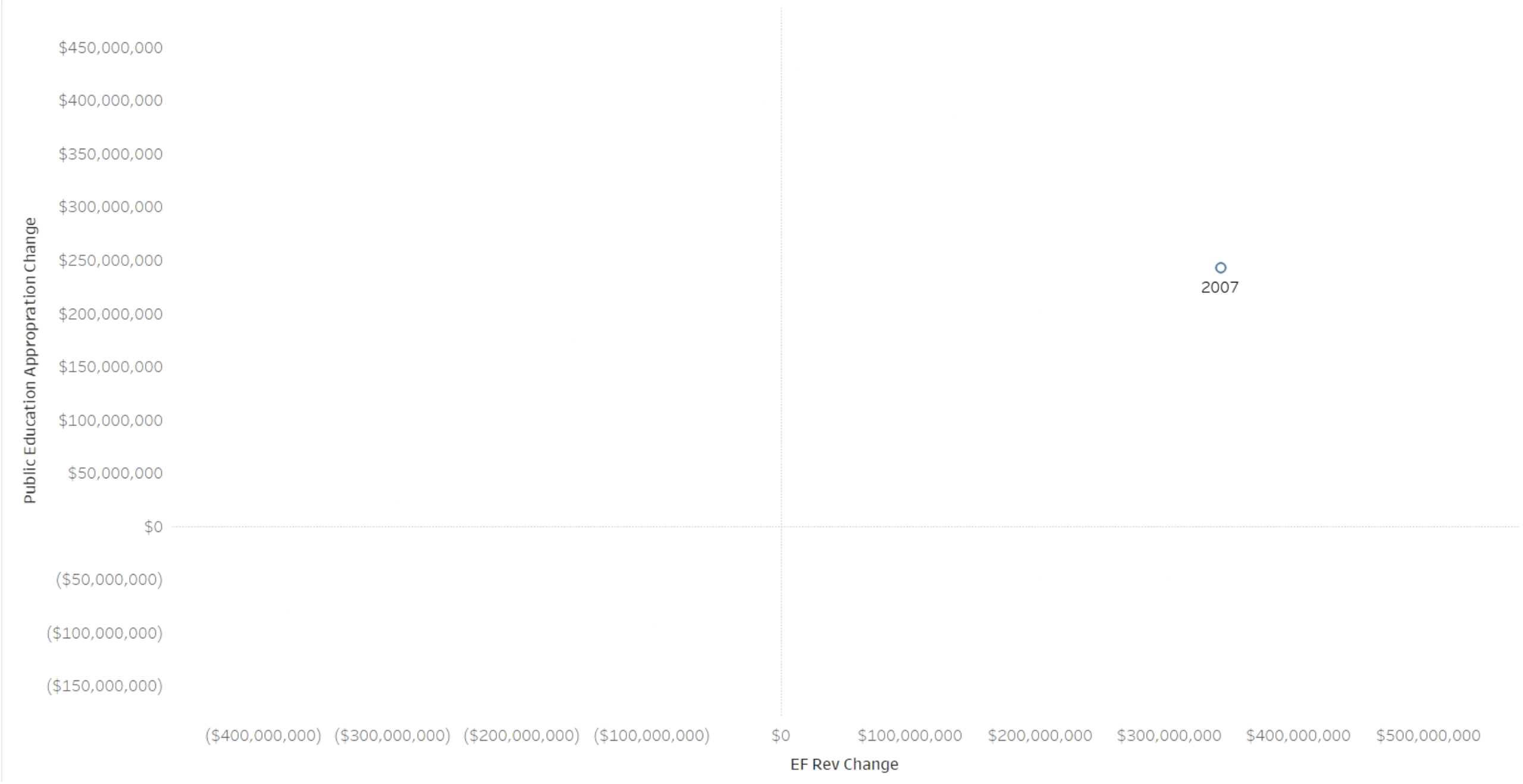
Running Total of Education Fund Revenue Change and Public Education Appropriation Change



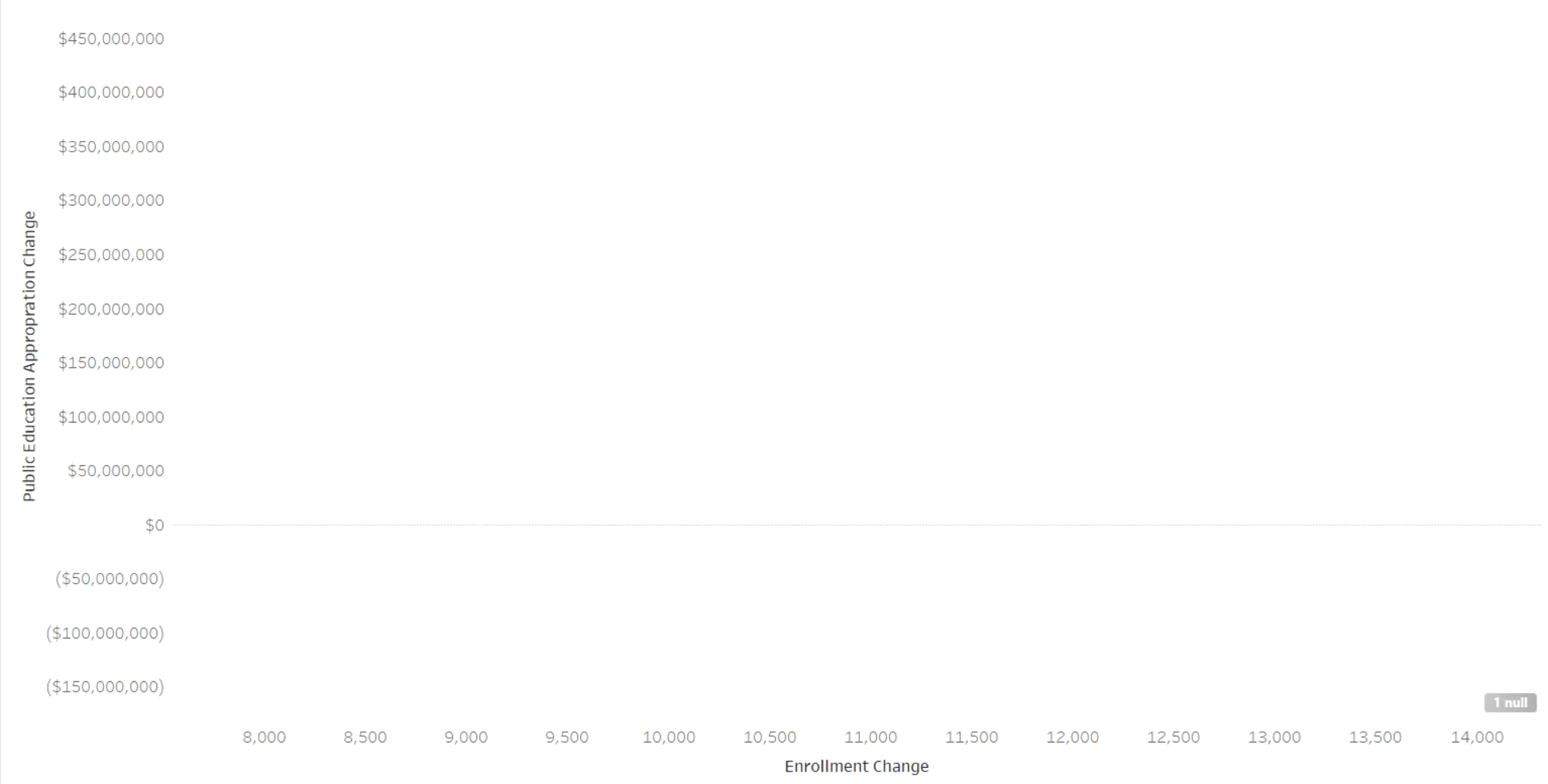
Source: LFA Appropriations Reports, Division of Finance
Created by Thomas Young, Ph.D.

- Measure Names**
- Running Sum of EF Rev Change
 - Running Sum of Public Education Appropriation Change

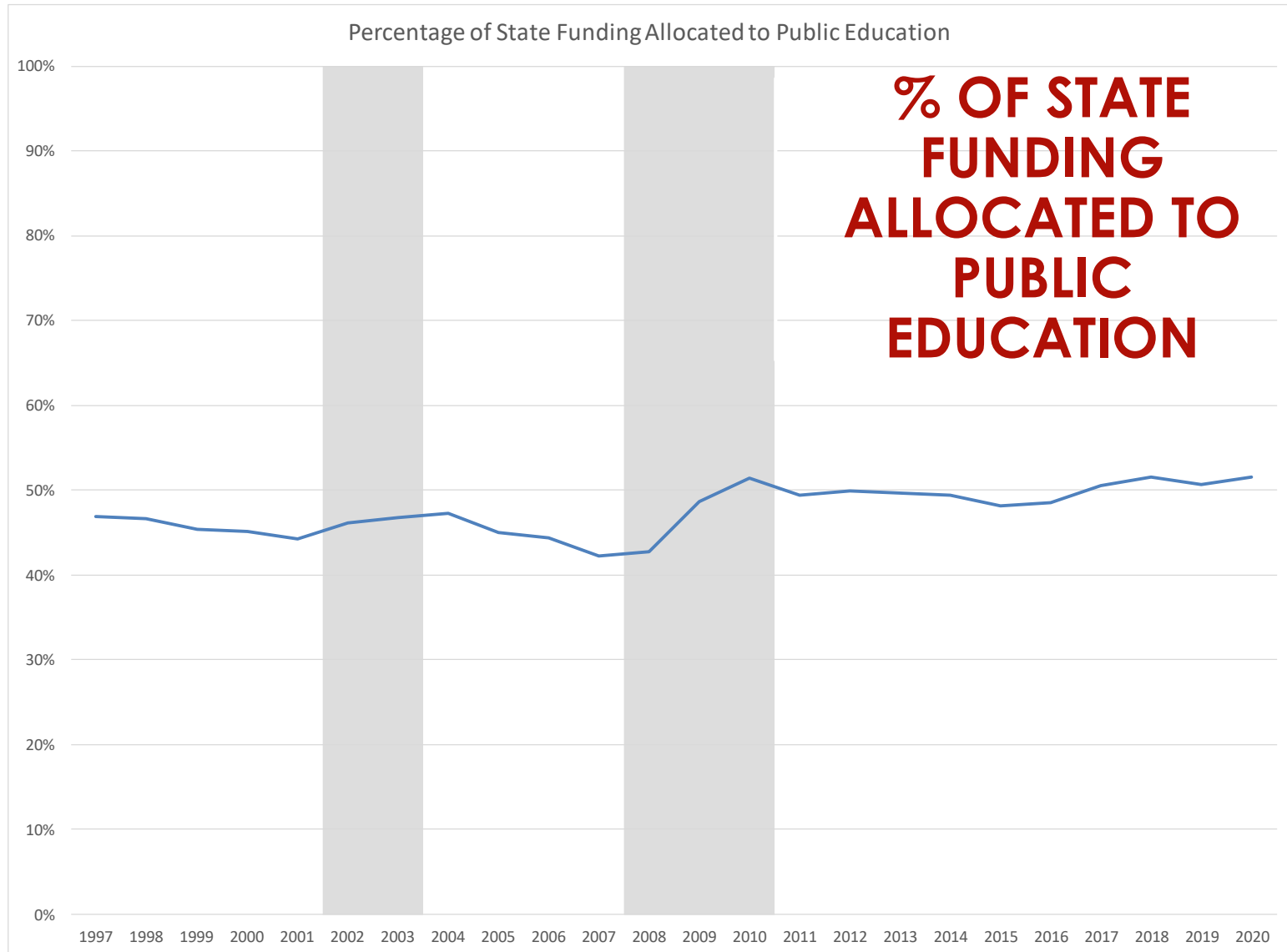
Public Education Appropriation Change and Education Fund Revenue Change - 2007



Public Education Appropriation Change and Enrollment Change - 2006



Year	Public Ed App.	Total Apps.
1997	\$1,405,957,300	\$2,995,340,677
1998	\$1,409,418,600	\$3,024,606,099
1999	\$1,475,584,400	\$3,247,024,399
2000	\$1,520,850,083	\$3,365,199,721
2001	\$1,638,443,500	\$3,698,122,200
2002	\$1,715,613,360	\$3,713,553,140
2003	\$1,649,769,194	\$3,525,477,594
2004	\$1,687,960,774	\$3,574,635,974
2005	\$1,795,954,311	\$3,987,904,711
2006	\$1,885,024,075	\$4,248,757,275
2007	\$2,127,285,045	\$5,037,179,385
2008	\$2,580,025,308	\$6,043,604,578
2009	\$2,435,769,286	\$5,001,673,736
2010	\$2,293,037,886	\$4,462,410,936
2011	\$2,336,560,886	\$4,724,470,836
2012	\$2,423,182,891	\$4,858,716,000
2013	\$2,548,056,500	\$5,126,789,800
2014	\$2,667,994,000	\$5,402,220,000
2015	\$2,770,438,000	\$5,748,913,000
2016	\$3,038,257,000	\$6,263,668,000
2017	\$3,246,330,000	\$6,427,338,000
2018	\$3,447,706,000	\$6,682,792,000
2019	\$3,566,671,000	\$7,043,441,400
2020	\$3,799,115,800	\$7,366,890,600



POLICY OPTIONS

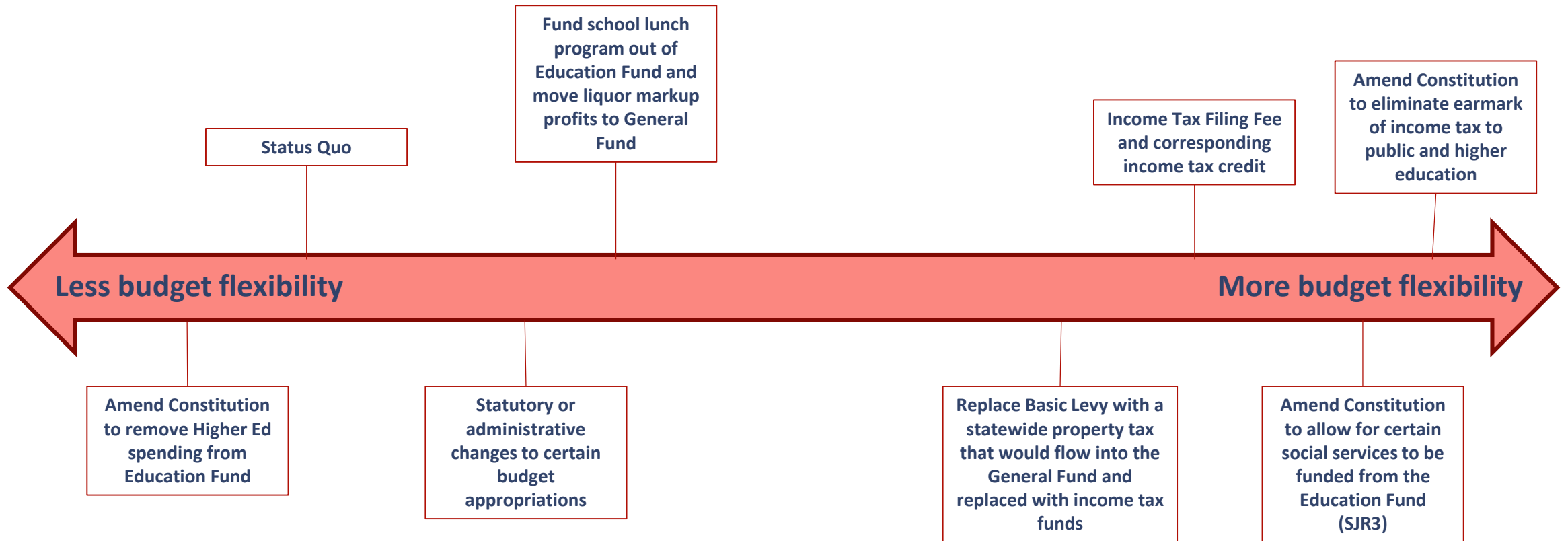
Tax Restructuring and Equalization Task Force

September 5, 2019



UTAH STATE
LEGISLATURE

SPECTRUM OF POTENTIAL MODIFICATIONS TO ALLOWED USES OF INCOME TAX



ELIMINATE SPENDING RESTRICTIONS ON INCOME TAX REVENUE

Policy Description

- The Legislature could pass a resolution to amend the constitution to eliminate the spending restrictions that require all income tax revenue to be spent on public and higher education.
- The resolution would need a 2/3 majority in both chambers of the legislature and a majority vote in a statewide general election.

National Comparison

- Utah only state with 100% of income tax revenue dedicated to education spending.
- 2 other states dedicate a portion of income tax revenue to education in their state constitution
- 6 other states dedicate a portion of income tax revenue to education in statute

POLICY CONSIDERATIONS

- **Flexibility**

- This change would provide the Legislature flexibility to use income tax revenue to meet any state need.

- **Scale**

- An amendment could be crafted to free up all or a portion of income tax revenue. It could also be crafted to allow income tax revenue to be used for only certain state purposes.

- **Simplicity/Transparency**

- Eliminating spending restrictions simplifies the budget process.

INCOME TAX FILING FEE AND CREDIT

Policy Description

- The Legislature could impose a fee on each individual or corporation that files an income tax return and deposit the fee in the General Fund. An income tax credit equal to the amount of the fee could offset the cost of the fee to the taxpayer.
- This policy would effectively transfer the amount of the fee from the Education Fund to the General Fund.
- A fee of \$1 per filer would transfer approximately \$1.5M.

National Comparison

- Idaho requires all individuals and corporations who file an income tax return to pay an additional tax of \$10, which goes into a Permanent Building Fund.

BASIC SCHOOL PROGRAM FUNDED FROM EDUCATION FUND

Policy Description

- The Legislature could adjust the Basic School Program to allow property tax revenue generated by the minimum basic levy to be deposited in the General Fund. An amount equal to the property tax revenue generated by the minimum basic levy could then be sent to local school districts from the Education Fund.
- This policy would effectively transfer the amount of revenue generated from the minimum basic levy (\$500M in FY21) from the Education Fund to the General Fund.

SCHOOL LUNCH PROGRAM FUNDED FROM EDUCATION FUND

Policy Description

- The Legislature could fund the School Lunch Program from the Education Fund rather than the revenue generated from 10% of the total gross sales of liquor.
- This policy would effectively transfer the amount of revenue generated from 10% of the total gross sales of liquor (\$55M in FY21) from the Education Fund to the General Fund.

EDUCATION PROGRAMS CURRENTLY FUNDED FROM GENERAL FUND

Policy Description

- The Legislature could fund approximately \$470 million of education programs from the Education Fund rather than the General Fund.
- Examples of such programs include:
 - Higher Education (\$335M)
 - STEM Action Center – Heritage and Arts (\$10.8M)
 - Education/Training – Corrections (\$2.4M)
 - Rehabilitation Services – Workforce Services (\$18.5M)

INCOME TAX CREDITS FROM OTHER FUNDS

Policy Description

- The Legislature could remove statutory provisions that require income tax credits and donations to be funded from the General Fund or Transportation Fund.
 - Motor Fuel for Agriculture
\$125,465 (Transportation Fund)
 - Hand Tools Used in Farming
\$5,285 (General Fund)
 - Alternative Fuel Heavy-Duty Vehicles
\$208,000 (General Fund)
 - At-Home Parent
\$381,900 (General Fund)
 - Campaign Fund Contribution
\$107,788 (General Fund)

POLICY CONSIDERATIONS

- **Scale**

- Each of these options could be scaled to target specific programs or amounts of revenue to transfer from the Education Fund to the General Fund.

- **Flexibility**

- These policies would increase the General Fund, which can be used for any state purpose.

- **Simplicity/Transparency**

- Some of these policies simplify the flow of revenue from source to use, while others complicate the flow.

- **Local Impact**

- Funding the basic school program from the Education Fund would change the role of local school districts in generating revenue.

EXPAND THE UTAH PERSONAL EXEMPTION

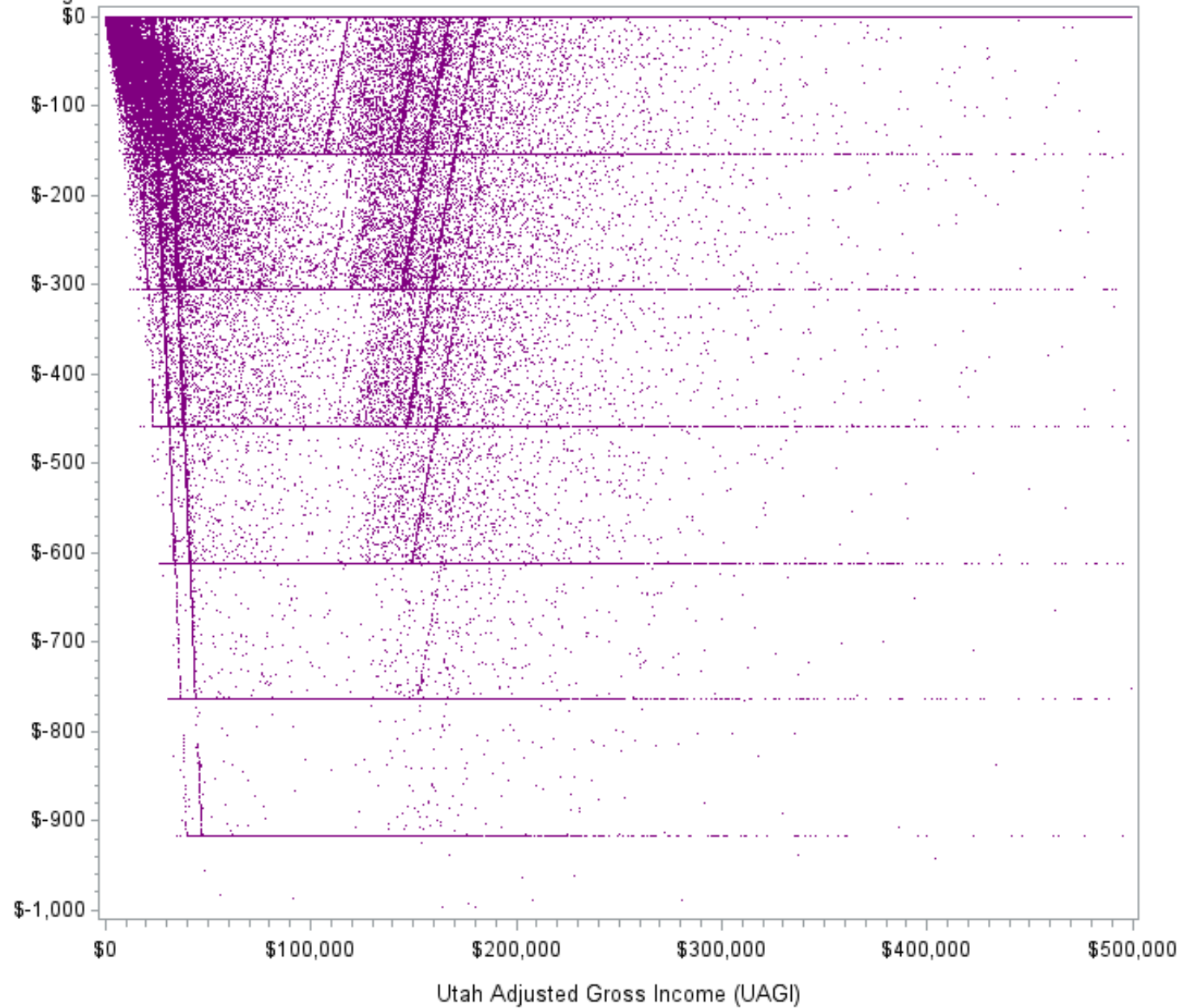
- The 2017 Federal Tax Cuts and Jobs Act had the effect of eliminating the personal exemption component of the taxpayer tax credit for Utah personal income tax purposes.
- In the 2018 2nd Special Session, the Legislature passed a bill that created the “Utah Personal Exemption,” which reinstated a portion of this provision.
- The Legislature could expand the Utah Personal Exemption to help mitigate certain impacts of federal tax changes.
- Income phaseouts could be implemented to target the benefit, if desired.

UTAH DEPENDENT PERSONAL EXEMPTION

Est. Revenue (FY21)	Est. Growth Trend (CAGR)	Stability Over Time
(\$136 million) to restore full dependent exemption amount	<ul style="list-style-type: none">• 3.0% annually	<ul style="list-style-type: none">• N/A

Full Dependent Exemption Amount

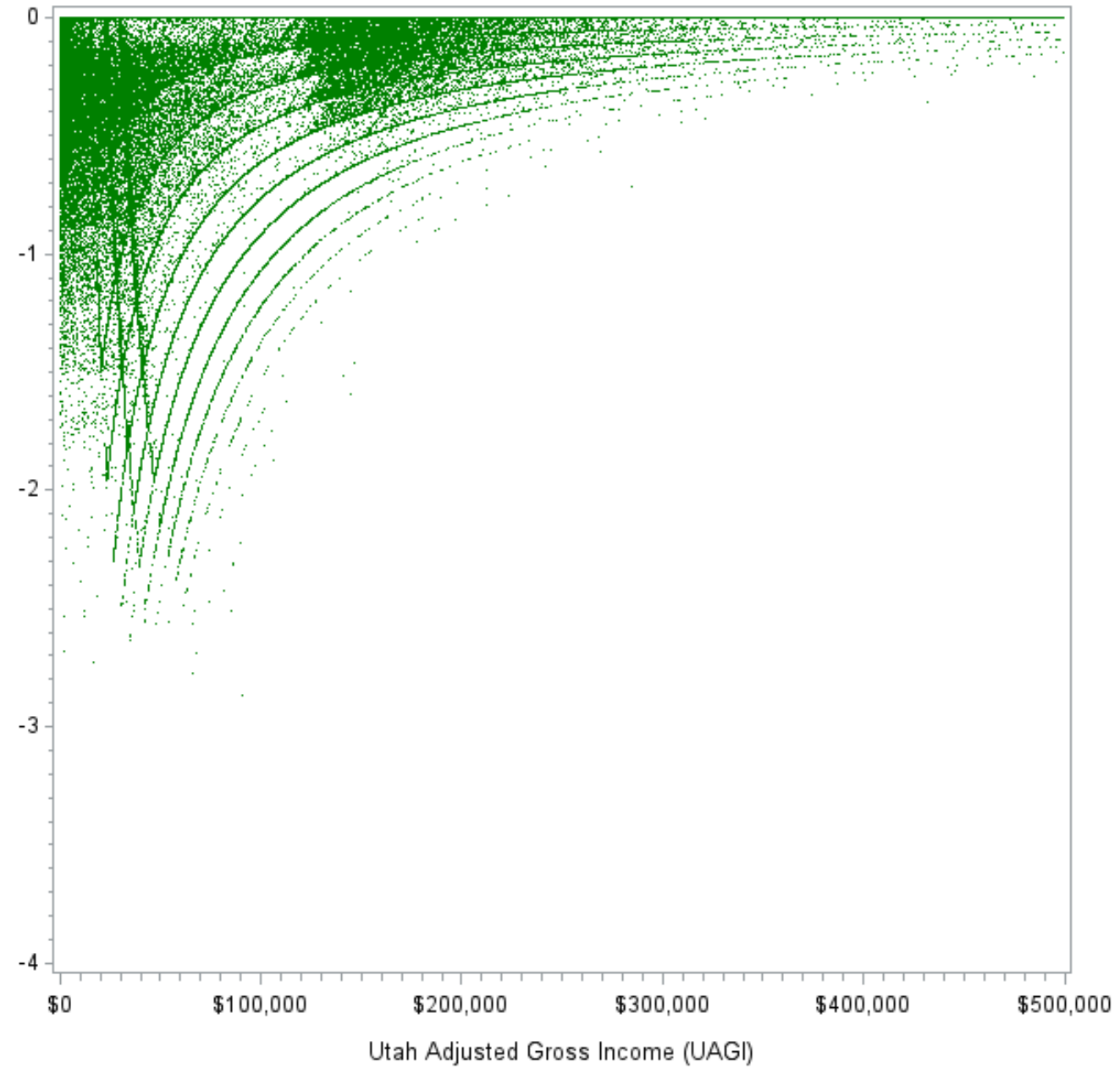
Overall Income Tax Change



Sources: LFA simulations of income tax data, Tax Commission, BLS

Tax Change from Dependent Exemption Change, Percentage of Income

Tax Change, Percentage of Income



Sources: LFA simulations of income tax data, Tax Commission, BLS

**Average Tax Change, Not
Including Disabled
Dependents**

Dependents

0	\$0
1	-\$104
2	-\$212
3	-\$336
4	-\$471
5	-\$593
6	-\$714
7	-\$791
8	-\$885
9	-\$1,005
10	-\$1,026

Average Tax Change by Income

#1: \$0 to \$29,999	-\$9
#2: \$30,000 to \$49,999	-\$101
#3: \$50,000 to \$70,000	-\$156
#4: \$70,001 to \$100,000	-\$190
#5: Greater than \$100,000	-\$147

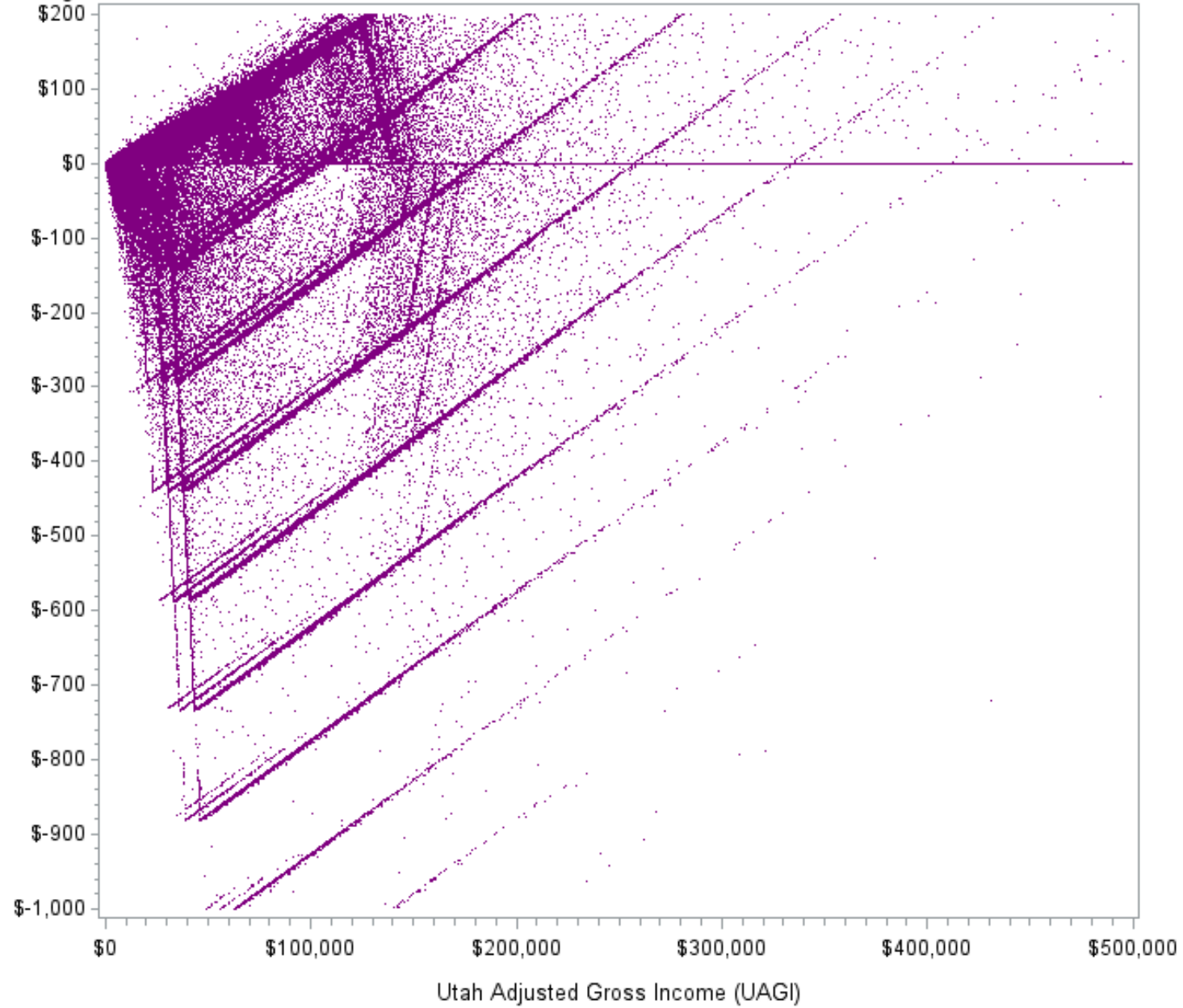
AVERAGE IMPACTS

UTAH DEPENDENT PERSONAL EXEMPTION, PHASEOUT @ 1.5%

Est. Revenue (FY21)	Est. Growth Trend (CAGR)	Stability Over Time
(\$55 million) to restore full dependent exemption amount 1.5% phase-out (currently @ 1.3%)	<ul style="list-style-type: none">• 3.0% annually	<ul style="list-style-type: none">• N/A

Full Dependent Exemption Amount with 1.5% Phase-out

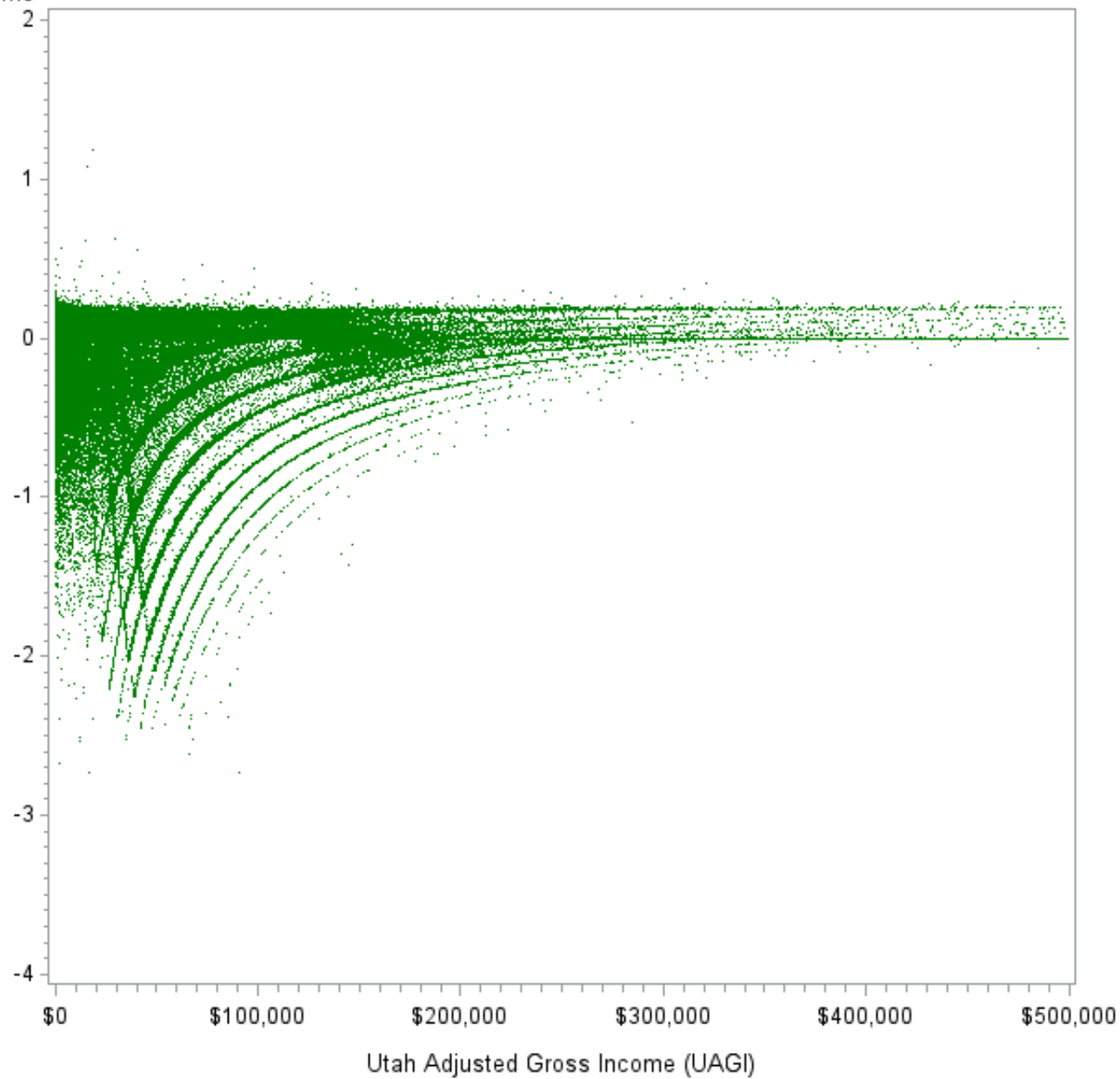
Overall Income Tax Change



Sources: LFA simulations of income tax data, Tax Commission, BLS

Tax Change from Full Dependent Exemption Change, Phased-out at 1.5%, Percentage of Income

Tax Change, Percentage of Income



Sources: LFA simulations of income tax data, Tax Commission, BLS

**Average Tax Change, Not
Including Disabled
Dependents, 1.5% phase-out**

Dependents

0	\$37
1	-\$47
2	-\$140
3	-\$251
4	-\$365
5	-\$482
6	-\$598
7	-\$672
8	-\$769
9	-\$884
10	-\$902

Average Tax Change by Income

#1: \$0 to \$29,999	-\$4
#2: \$30,000 to \$49,999	-\$68
#3: \$50,000 to \$70,000	-\$94
#4: \$70,001 to \$100,000	-\$99
#5: Greater than \$100,000	-\$26

AVERAGE IMPACTS

POLICY CONSIDERATIONS

- **Scope**

- Taxpayers with more dependents would benefit more than those with fewer dependents.
- The benefit could be targeted more towards low-and-middle-income taxpayers by applying an enhanced income phaseout schedule.
- Taxpayers with no dependents would not see a benefit.

- **Budgetary impact**

- An increase in the Utah Personal Exemption would reduce revenue in the state's Education Fund.

- **Mitigation of federal tax changes impact on state taxes**

- While many taxpayers saw a reduction in federal taxes from the 2017 federal tax reform, many Utah taxpayers saw an increase in state income tax owed.
 - Expanding the Utah Personal Exemption would offset that increase for many families.



UTAH STATE

LEGISLATURE