ONE OPTION: REDUCE SPENDING

Tax Restructuring and Equalization Task Force
September 5, 2019
I decided to try my hand at writing fiction.

I like writing fiction because it doesn’t require any research.

I can literally make up a story out of nothing.

I feel sorry for nonfiction writers. They have to get the facts right.

But a fiction writer only has to use imagination.

I can make any wild assumptions about the future that I want.

I asked you here to talk about your budget forecast.

That’s what I was talking about.
HOUSTON, WE HAVE A (SPENDING) PROBLEM…

…but it's not what you think it is!
DO WE HAVE A “SPENDING PROBLEM”? 

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

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• 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.

"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 APPROPS LIMIT
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

1 JOINT RULES RESOLUTION ON BASE BUDGETING
2 PROVISIONS
3 2019 GENERAL SESSION
4 STATE OF UTAH
5 Chief Sponsor: Jefferson Moss
6 Senate Sponsor: Daniel Hemmert

8 LONG TITLE
9 General Description:
10 This resolution modifies joint rules related to base budgeting.
11 Highlighted Provisions:
12 This resolution:
13 • defines terms;
14 • requires every appropriations subcommittee to create an accountable process budget
15 for a percentage of the subcommittee's budgets each interim; and
16 • 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.
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

State, $3,365,982,700, 55%
Federal (State Budget), $453,615,200, 7%
Local (State Budget), $813,817,800, 13%
Local, $1,522,387,600, 25%
REVENUE: UTAH COMPARED TO THE NATION
FY 2016 | PERCENT OF PUBLIC EDUCATION REVENUE BY SOURCE

- State Revenue
- Local Revenue
- Federal Revenue

United States
Utah
REVENUE: UTAH COMPARED TO THE NATION
FY 2013-2017 | PERCENT OF PUBLIC EDUCATION REVENUE BY SOURCE

[Bar charts showing revenue sources for the United States and Utah from 2013 to 2017, with percentage breakdowns for local, state, and federal sources.]
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

Salaries, $2,861,092,800, 42%
Benefits, $1,295,896,800, 19%
Purchased Services, $871,471,100, 13%
Supplies, $591,760,600, 9%
Property, $432,373,100, 6%
Other, $705,932,600, 11%
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

The bar chart compares capital expenditures on buildings and equipment between the United States and Utah for FY 2017. The chart indicates that Utah spends a significantly lower percentage of its capital expenditures on buildings and equipment compared to the United States.
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
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?
**Minimum School Program: Basic School Program Equalization**

Basic Levy Revenue Equalization Example Using the Weighted Pupil Unit (WPU)

<table>
<thead>
<tr>
<th>Cost</th>
<th>District A</th>
<th>District B</th>
<th>District C</th>
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</thead>
<tbody>
<tr>
<td>WPU Value:</td>
<td>$3,532</td>
<td>$3,532</td>
<td>$3,532</td>
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<tr>
<td>Number of WPUs:</td>
<td>10,000</td>
<td>10,000</td>
<td>10,000</td>
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<tr>
<td>Basic School Program (WPU) Cost:</td>
<td>$35,320,000</td>
<td>$35,320,000</td>
<td>$35,320,000</td>
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</table>

<table>
<thead>
<tr>
<th>Revenues</th>
<th></th>
<th></th>
<th></th>
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</thead>
<tbody>
<tr>
<td>Taxable Value of Property in District:</td>
<td>$5,000,000,000</td>
<td>$15,000,000,000</td>
<td>$25,000,000,000</td>
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<tr>
<td>Basic Rate (Set by State):</td>
<td>0.001661</td>
<td>0.001661</td>
<td>0.001661</td>
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<tr>
<td>Local Property Tax Revenue</td>
<td>$8,305,000</td>
<td>$24,915,000</td>
<td>$41,525,000</td>
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<tr>
<td>State Revenue</td>
<td>$27,015,000</td>
<td>$10,405,000</td>
<td>$(6,205,000)</td>
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</tbody>
</table>

**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)
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

Combined Basic Rate (Basic Levy) FY 2020

- Basic Levy, $348,036,700, 68%
- Increment (2015), $75,000,000, 15%
- Equity Pupil Tax Rate, $48,997,900, 10%
- WPU Value Rate, $37,450,000, 7%

Minimum Basic Tax Rate
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

Source: Utah State Office of Education, Finance & Statistics Section
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)
Revenue Generated per WPU for Each 0.0001 Increment

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 Revenue
State Guarantee @ $44.98

$44.98 per WPU & Tax Increment
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

- 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 Taxes - FY 2019

<table>
<thead>
<tr>
<th>Levy</th>
<th>Tax Rate Range</th>
<th>Statutory Cap</th>
<th>Estimated Capacity in Millions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic</td>
<td>0.001661</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Voted</td>
<td>0.0 to 0.002140</td>
<td>0.002000</td>
<td>$234.6</td>
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<tr>
<td>Board</td>
<td>0.000249 to 0.002749</td>
<td>0.002500</td>
<td>$275.1</td>
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<tr>
<td>Capital</td>
<td>0.000122 to 0.003586</td>
<td>0.003000</td>
<td>$546.1</td>
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<tr>
<td>Debt Service</td>
<td>0.0 to 0.003204</td>
<td>N/A</td>
<td>N/A</td>
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<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
<td><strong>$1,055.8</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>County</th>
<th>Voted Local Levy</th>
<th>Board Local Levy</th>
<th>Capital Local Levy</th>
<th>Estimated Under-Cap Revenue</th>
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<tbody>
<tr>
<td>Alpine</td>
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<td>Beaver</td>
<td>1,395,041,762</td>
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<td>0.001070</td>
<td>1,492,695</td>
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<td>Box Elder</td>
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<td>Cache</td>
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<td>Carbon</td>
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<td>Daggett</td>
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<td>Davis</td>
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<td>Duchesne</td>
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<td>Emery</td>
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<td>Garfield</td>
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<td>Ione</td>
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<td>Kane</td>
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<td>Millard</td>
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<td>Park City</td>
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<td>Rich</td>
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<td>San Juan</td>
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<td>So. Summit</td>
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<td>Tooele</td>
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**Total:** $2,344,547,893

**Estimated Under-Cap Revenue:** $3,481,112

**Total Revenue:** $5,865,731,613

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
“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

1909
Adopted constitutional funding levels for public education
SJR 2 (1909)

1930
Enacted income tax earmark - 75% to education
SJR 2 (1930)

1946
Increased income tax earmark to 100%
HJR 2 (1946)

1986
Repealed constitutional funding levels for public education
HJR 1 (1946)

1996
Constitutional amendment to separately define the “higher education system” and “public education system”
SJR 1 (1986)

1996
Added higher education to income tax earmark
SJR 17 (1996)
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

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

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

**Percentage of State Funding Allocated to Public Education**

% OF STATE FUNDING ALLOCATED TO PUBLIC EDUCATION
POLICY OPTIONS
Tax Restructuring and Equalization Task Force
September 5, 2019
SPECTRUM OF POTENTIAL MODIFICATIONS TO ALLOWED USES OF INCOME TAX

Status Quo

Amend Constitution to remove Higher Ed spending from Education Fund

Statutory or administrative changes to certain budget appropriations

Fund school lunch program out of Education Fund and move liquor markup profits to General Fund

Income Tax Filing Fee and corresponding income tax credit

Replace Basic Levy with a statewide property tax that would flow into the General Fund and replaced with income tax funds

Amend Constitution to eliminate earmark of income tax to public and higher education

Amend Constitution to allow for certain social services to be funded from the Education Fund (SJR3)

Less budget flexibility

More budget flexibility
**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.
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.
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.
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.
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)
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.
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

<table>
<thead>
<tr>
<th>Est. Revenue (FY21)</th>
<th>Est. Growth Trend (CAGR)</th>
<th>Stability Over Time</th>
</tr>
</thead>
<tbody>
<tr>
<td>($136 million) to restore full dependent exemption amount</td>
<td>• 3.0% annually</td>
<td>• N/A</td>
</tr>
</tbody>
</table>
### Average Tax Change by Income

<table>
<thead>
<tr>
<th>Income Range</th>
<th>Average Tax Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>#1: $0 to $29,999</td>
<td>-$9</td>
</tr>
<tr>
<td>#2: $30,000 to $49,999</td>
<td>-$101</td>
</tr>
<tr>
<td>#3: $50,000 to $70,000</td>
<td>-$156</td>
</tr>
<tr>
<td>#4: $70,001 to $100,000</td>
<td>-$190</td>
</tr>
<tr>
<td>#5: Greater than $100,000</td>
<td>-$147</td>
</tr>
</tbody>
</table>

### Average Tax Change, Not Including Disabled Dependents

<table>
<thead>
<tr>
<th>Dependents</th>
<th>Average Tax Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>$0</td>
</tr>
<tr>
<td>1</td>
<td>-$104</td>
</tr>
<tr>
<td>2</td>
<td>-$212</td>
</tr>
<tr>
<td>3</td>
<td>-$336</td>
</tr>
<tr>
<td>4</td>
<td>-$471</td>
</tr>
<tr>
<td>5</td>
<td>-$593</td>
</tr>
<tr>
<td>6</td>
<td>-$714</td>
</tr>
<tr>
<td>7</td>
<td>-$791</td>
</tr>
<tr>
<td>8</td>
<td>-$885</td>
</tr>
<tr>
<td>9</td>
<td>-$1,005</td>
</tr>
<tr>
<td>10</td>
<td>-$1,026</td>
</tr>
</tbody>
</table>
### UTAH DEPENDENT PERSONAL EXEMPTION, PHASEOUT @ 1.5%

<table>
<thead>
<tr>
<th>Est. Revenue (FY21)</th>
<th>Est. Growth Trend (CAGR)</th>
<th>Stability Over Time</th>
</tr>
</thead>
<tbody>
<tr>
<td>($55 million) to restore full dependent exemption amount 1.5% phase-out (currently @ 1.3%)</td>
<td>• 3.0% annually</td>
<td>• N/A</td>
</tr>
</tbody>
</table>
Full Dependent Exemption Amount with 1.5% Phase-out

Overall Income Tax Change

Utah Adjusted Gross Income (UAGI)

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

Sources: LFA simulations of income tax data, Tax Commission, BLS
### Average Tax Change, Not Including Disabled Dependents, 1.5% phase-out

<table>
<thead>
<tr>
<th>Dependents</th>
<th>Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>$37</td>
</tr>
<tr>
<td>1</td>
<td>-$47</td>
</tr>
<tr>
<td>2</td>
<td>-$140</td>
</tr>
<tr>
<td>3</td>
<td>-$251</td>
</tr>
<tr>
<td>4</td>
<td>-$365</td>
</tr>
<tr>
<td>5</td>
<td>-$482</td>
</tr>
<tr>
<td>6</td>
<td>-$598</td>
</tr>
<tr>
<td>7</td>
<td>-$672</td>
</tr>
<tr>
<td>8</td>
<td>-$769</td>
</tr>
<tr>
<td>9</td>
<td>-$884</td>
</tr>
<tr>
<td>10</td>
<td>-$902</td>
</tr>
</tbody>
</table>

### Average Tax Change by Income

<table>
<thead>
<tr>
<th>Income Range</th>
<th>Tax Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>#1: $0 to $29,999</td>
<td>-$4</td>
</tr>
<tr>
<td>#2: $30,000 to $49,999</td>
<td>-$68</td>
</tr>
<tr>
<td>#3: $50,000 to $70,000</td>
<td>-$94</td>
</tr>
<tr>
<td>#4: $70,001 to $100,000</td>
<td>-$99</td>
</tr>
<tr>
<td>#5: Greater than $100,000</td>
<td>-$26</td>
</tr>
</tbody>
</table>
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.