




EQUITY PUPIL FUNDING: REVIEW OF PROPERTY TAX EQUALIZATION EFFORTS

Public Education Appropriations Subcommittee

R. Benjamin Leishman, Finance Manager


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Property Tax Equalization Efforts

2022 Interim | H.B. 293 – Tax Rebalancing Revisions (2018 GS)



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What Happened?

2022 Interim | H.B. 293 – Tax Rebalancing Revisions (2018 GS)

Equalization

- Local Levy Growth Account
 - Revenue Generated from Basic Rate “Freeze” (Hold Rate at 0.0016/5 Years)
 - \$108.5 M 5-Year Total
 - Supports Voted & Board Local Levy Guarantee Programs:
 - Guarantees up to 20 Tax Increments (0.0001 Tax Rate) for All Districts
 - Increased the Guarantee Rate from \$41.26/WPU/Tax Increment to \$57.11 – Difference of \$15.85 an increase of 38.4%
- Ends Automatically

System Support

- Teacher & Student Success Account
 - Revenue Generated from WPU Value Rate (Tied to WPU Value Increase)
 - \$94.2 M 5-Year Total
 - [Additional \$64.5 M from USF Also Supports Program - \$155.7 M Total]
 - Expenditure Based on Plan
 - Developed by Principal with Input from School Stakeholders
 - 25% for Employee Compensation
 - Can Increase Up to 40% Under Conditions (Below Average Salary, Maximize Board Levy, 4-6th Class)
- Continues Unless Legislature Ends

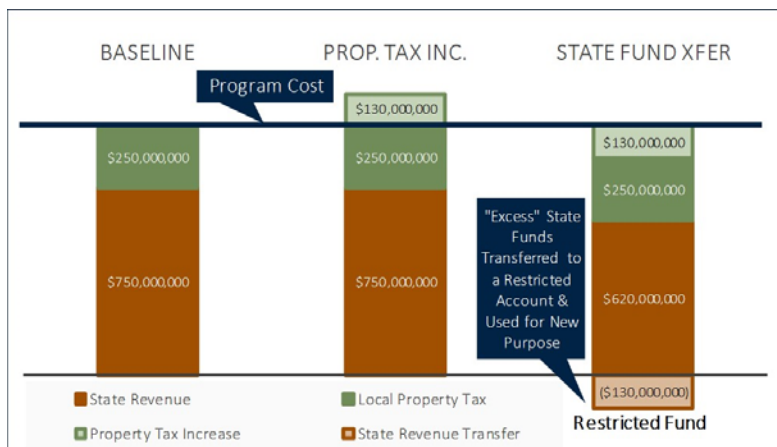


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Leveraging the Basic Property Tax Rate

How Increased Property Tax Facilitates State Fund Transfers to Restricted Accounts
2022 Interim | Minimum School Program – Basic School Program

- Based on State/Local Funding Mix to the Basic School Program [Weighted Pupil Units]
- Baseline Cost of WPUs Does Not Change
- Increased Local Revenue Requires Less State Revenue
- “Excess” State Revenue Transferred to Restricted Account

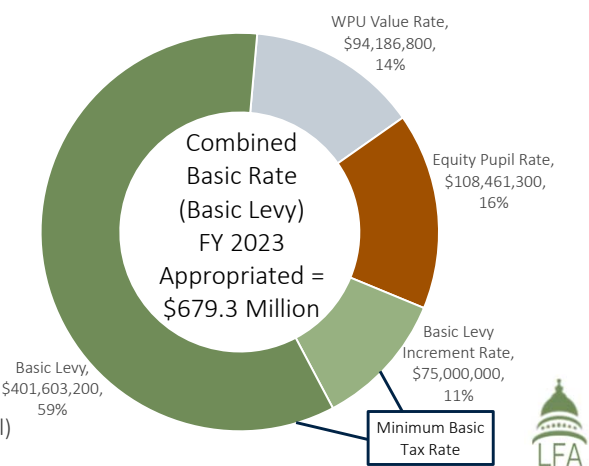


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Local Revenue Impacts on State Budget

FY 2023 | Appropriation Summary

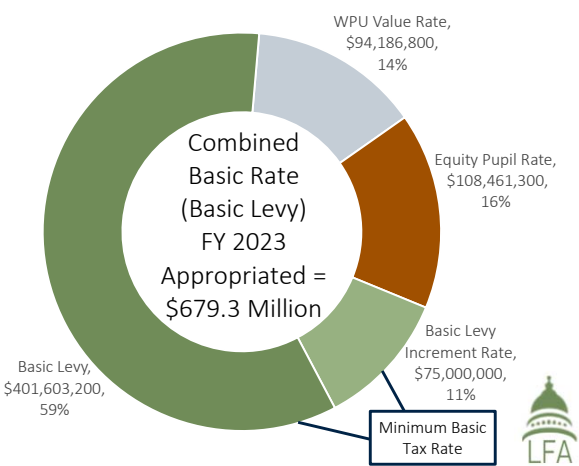
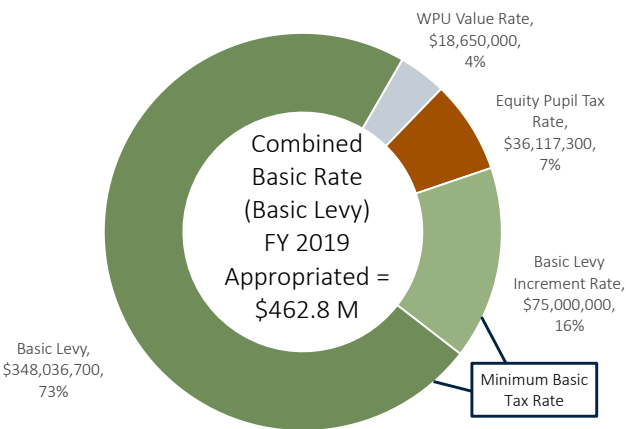
- \$408.9 Billion Statewide Taxable Value
 - Up 13.7% from FY 2022
- Basic Rate Estimate = 0.001579
 - Final Year of Basic Rate “Freeze” at 0.0016
- Basic Levy Components - \$679.3 M Total
 - \$476.6 M Minimum Basic Tax Rate
 - Includes \$17.6 M in Net New Growth
 - \$108.5 M Equity Pupil Tax Rate
 - Up \$8.4 M (Diff. Basic Rate Est. and 0.0016 Rate)
 - Voted & Board Guarantee Rate at \$57.11
 - \$94.2 M WPU Value Rate
 - Teacher & Student Success
 - Based on 4.0% of WPU Value Increase (6.0% Total)



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Changes to the Combined Basic Rate

FY 2023 | FY 2019 (Year 1) & FY 2023 (Year 5)



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The Combined Basic Rate

FY 2023 | Change in Basic Rate Components FY 2019 to FY 2023

| Basic Rate Components | Total Revenue | | | | | | Change Since FY 2018 | HB 293 Estimates | % Change Since FY 2018 |
|--|---------------|---------------|---------------|---------------|---------------|---------------|----------------------|------------------|------------------------|
| | FY 2018 | FY 2019 | FY 2020 | FY 2021 | FY 2022 | FY 2023 | | | |
| Basic Levy ⁽²⁾ | \$324,041,300 | \$333,073,800 | \$348,036,700 | \$365,367,400 | \$384,046,600 | \$401,603,200 | \$77,561,900 | \$0 | 19.4% |
| Basic Levy Increment Rate ⁽²⁾ | \$75,000,000 | \$75,000,000 | \$75,000,000 | \$75,000,000 | \$75,000,000 | \$75,000,000 | \$0 | \$0 | |
| Equity Pupil Tax Rate | \$0 | \$36,117,300 | \$48,997,900 | \$70,135,200 | \$100,083,400 | \$108,461,300 | \$108,461,300 | \$125,600,000 | 27.2% |
| WPU Value Rate ⁽¹⁾ | \$0 | \$18,650,000 | \$37,450,000 | \$46,750,000 | \$69,234,800 | \$94,186,800 | \$94,186,800 | \$68,200,000 | 23.6% |
| Total: | \$399,041,300 | \$462,841,100 | \$509,484,600 | \$557,252,600 | \$628,364,800 | \$679,251,300 | \$280,210,000 | \$0 | 70.2% |
| Change Due to HB 293 (2018 GS): | | \$54,767,300 | \$31,680,600 | \$30,437,300 | \$52,433,000 | \$33,329,900 | \$202,648,100 | \$193,800,000 | 50.8% |
| Difference - Estimate to Actual: | | | | | | | | \$8,848,100 | |

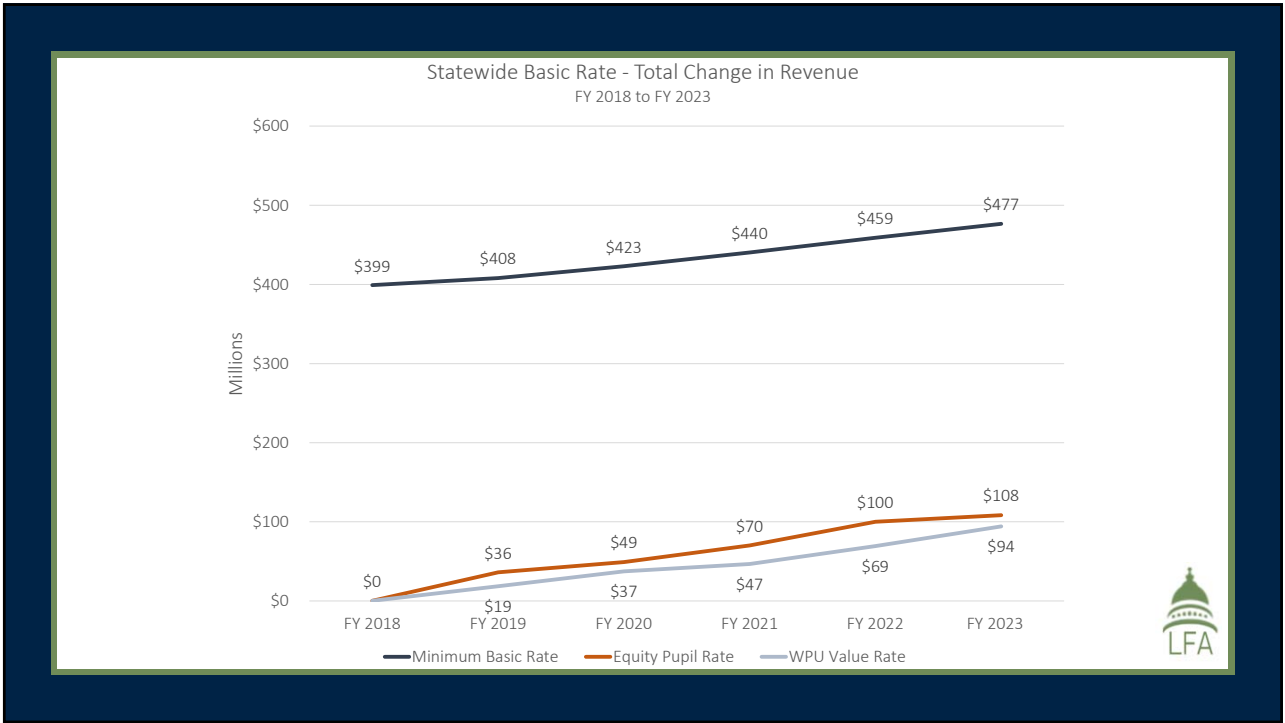
Notes:
(1) The WPU Value Rate adjusts with the percent increase in the WPU Value as determined by the Legislature. The adjustment is based on the ratio of state and For FY 2023, the property tax increase is approximately \$6.2 million for each 1 percent increase.
(2) Statute allows the Basic Rate to collect property tax revenue on the net new growth of properties in the state. "Net New Growth" is an amount calculated by the Tax Commission. Historically, this revenue has accrued to the Basic School Program and offset the state cost for enrollment growth. The net new growth amount for the Basic Levy Increment Rate has accrued to the Basic School Program since the creation of that rate in FY 2016. This revenue would have been generated regardless of the changes made in House Bill 293 (2018 GS).

- Basic Levy Revenue as a Percent of Total Basic Program
 - FY 2018 = 14.0% | FY 2023 = 18.3%
 - Historic: FY 1975 = 24.5%
- Additional Revenue from the Basic Rate
 - \$280.2 M in 5-Years
 - \$202.6 M from H.B. 293 (2018 GS)

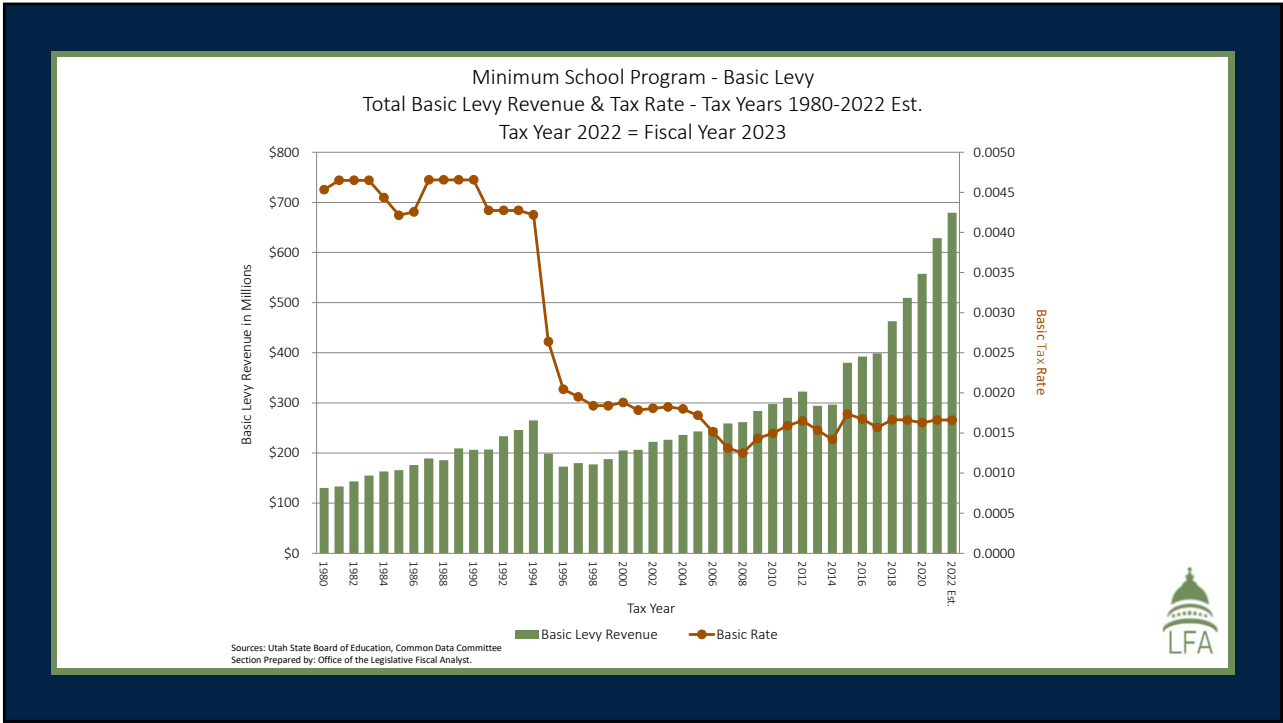
Changes – Equity Pupil & WPU Value Rates



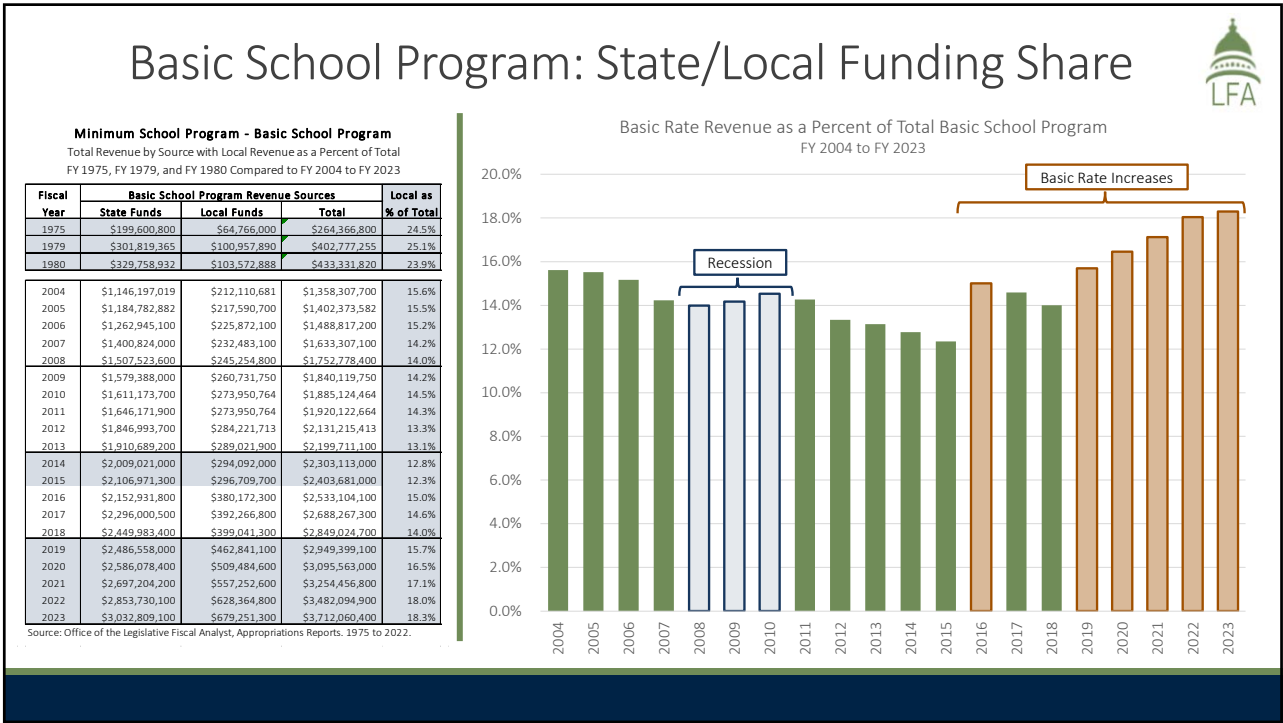
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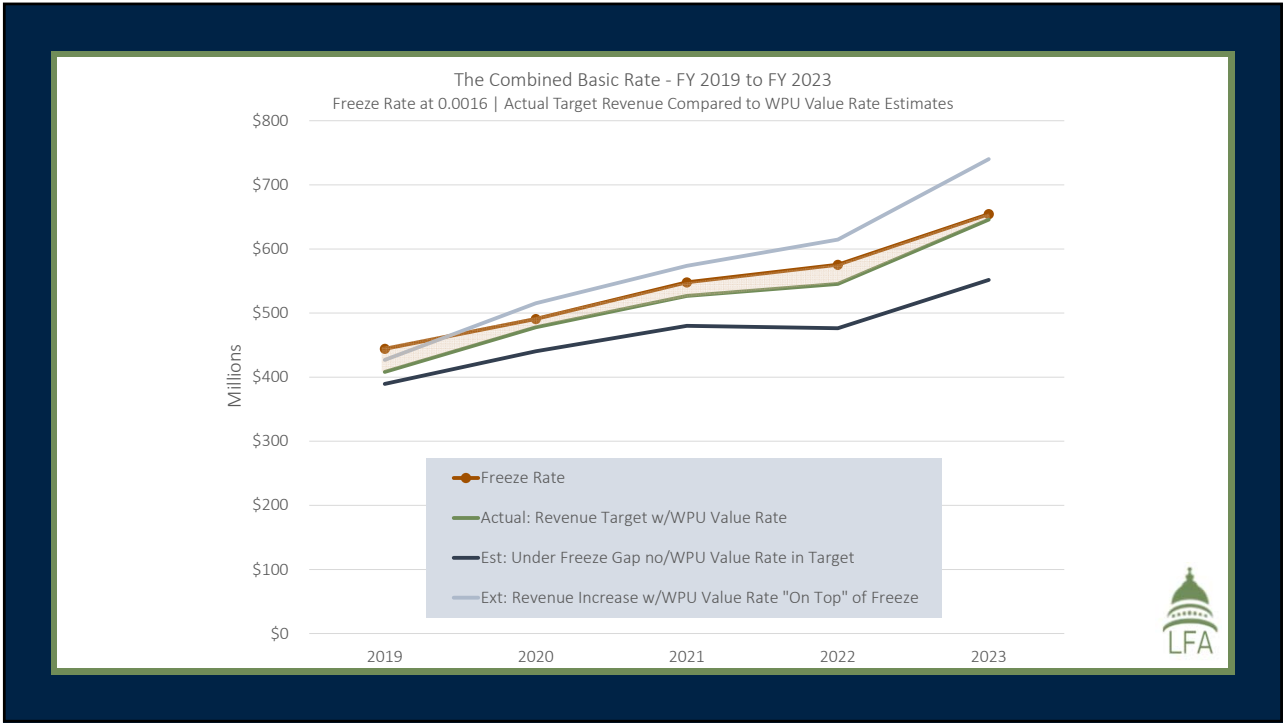
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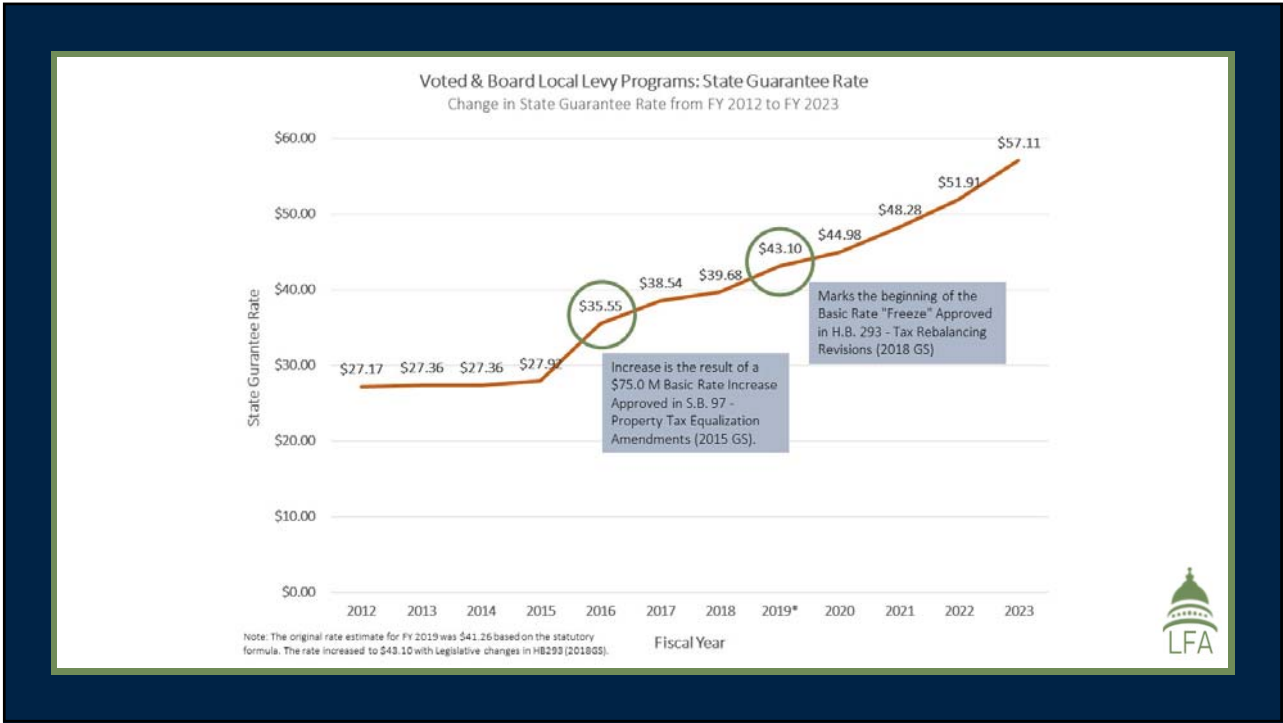
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Property Tax Equalization Efforts:
Impact on Voted & Board State Guarantee

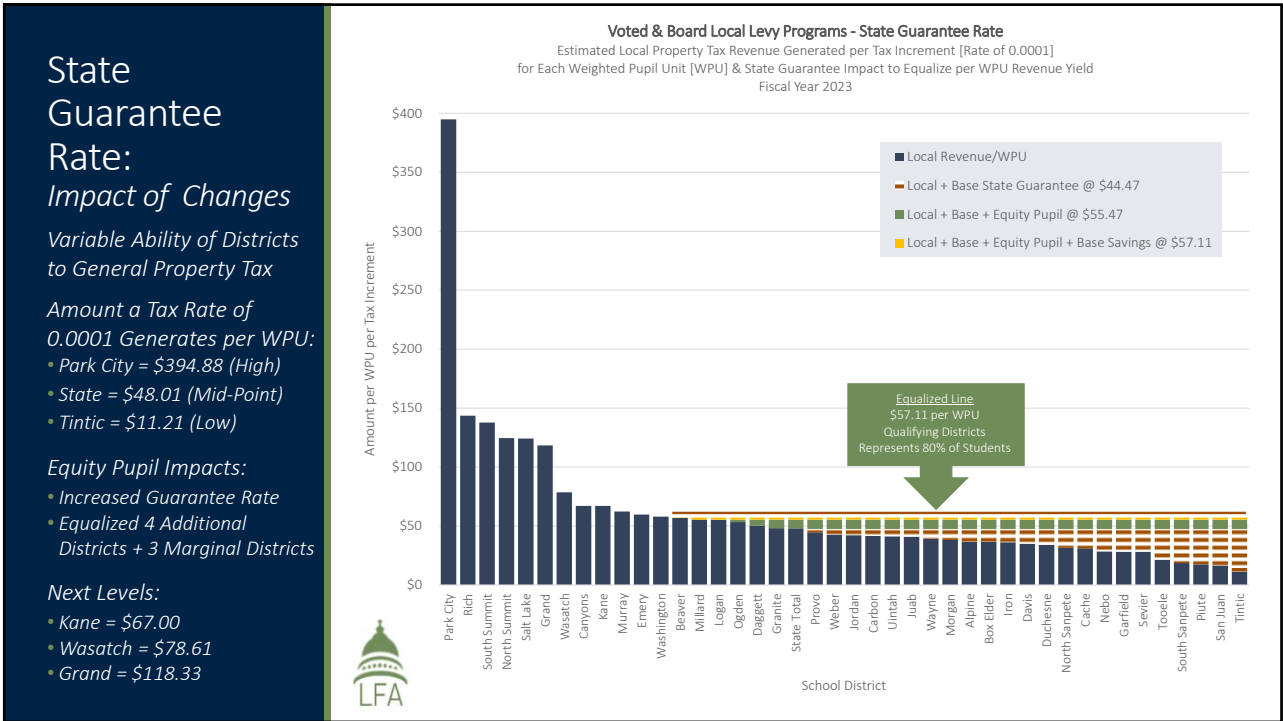
2022 Interim | H.B. 293 – Tax Rebalancing Revisions (2018 GS)

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Future of Property Tax Equalization

Considerations for Subcommittee Discussion with Highlights from the Education Funding Study

2022 Interim | Public Education Appropriations Subcommittee



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Fully Equalized: Statewide Basic Rate

2022 Interim | Enhancing Current Equalization Mechanisms

State & Districts Share in Cost

- Basic School Program Cost
 - Number of Weighted Pupil Units x WPU Value
 - WPU Value Used to Distribute Funding
- What happens when revenue to the Basic School Program increases? Multiple Scenarios:
 - Increase the Number of WPUs or WPU Value
 - Shift State Revenue to Other Sources
 - Removes State Revenue from Fully Equalized Program
 - SB 97 & HB 293 Shifted Funding to State Restricted Accounts to Equalize Discretionary Levies
- Enhancing the Basic Program (Increasing WPUs or WPU Value) Are Ways to Improve Equalization
- “Utah has one of the lowest basic tax levies among states with a similar approach to funding generation.”

| State | Mill Rate | Taxable Property Value | Mill Per Actual Value |
|-------------|-----------|------------------------|-----------------------|
| Utah | 1.6 | 100% | 1.6 |
| Alabama | 10 | 20% | 2 |
| Arkansas | 25 | 20% | 5 |
| Georgia | 5 | 40% | 2 |
| Iowa | 5.4 | 100% | 5.4 |
| Kansas | 20 | 11.5% | 2.3 |
| Kentucky | 3 | 100% | 3 |
| Mississippi | 28 | 10% | 2.8 |
| Missouri | 34.3 | 19% | 6.5 |
| Nebraska | 10.23 | 100% | 10.2 |
| Nevada | 7.5 | 35% | 2.6 |
| New Mexico | .5 | 33% | 0.2 |
| Oklahoma | 25 | 12.5% | 4.4 |
| Texas | 9.3 | 100% | 9.3 |
| Wyoming | 25 | 9.5% | 2.4 |

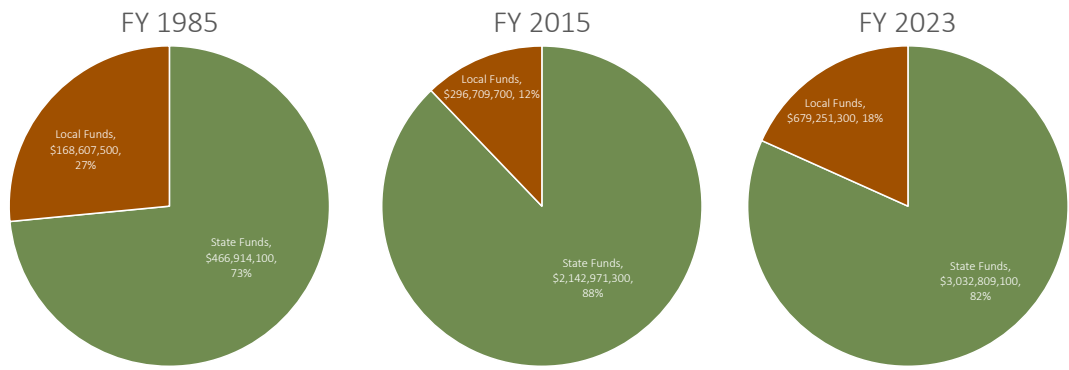


Quote and Table Source: Utah School Funding Study, Utah State Board of Education, WestEd, December 3, 2020.

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Basic School Program: State/Local Funding Share

2022 Interim | Changes Over Time



“Increasing the Basic Tax Levy by 50% would increase the median local share of the Basic School Program from 17% to 25%, with the largest increases in the communities with the most excess capacity.”



Quote Source: Utah School Funding Study, Utah State Board of Education, WestEd, December 3, 2020.

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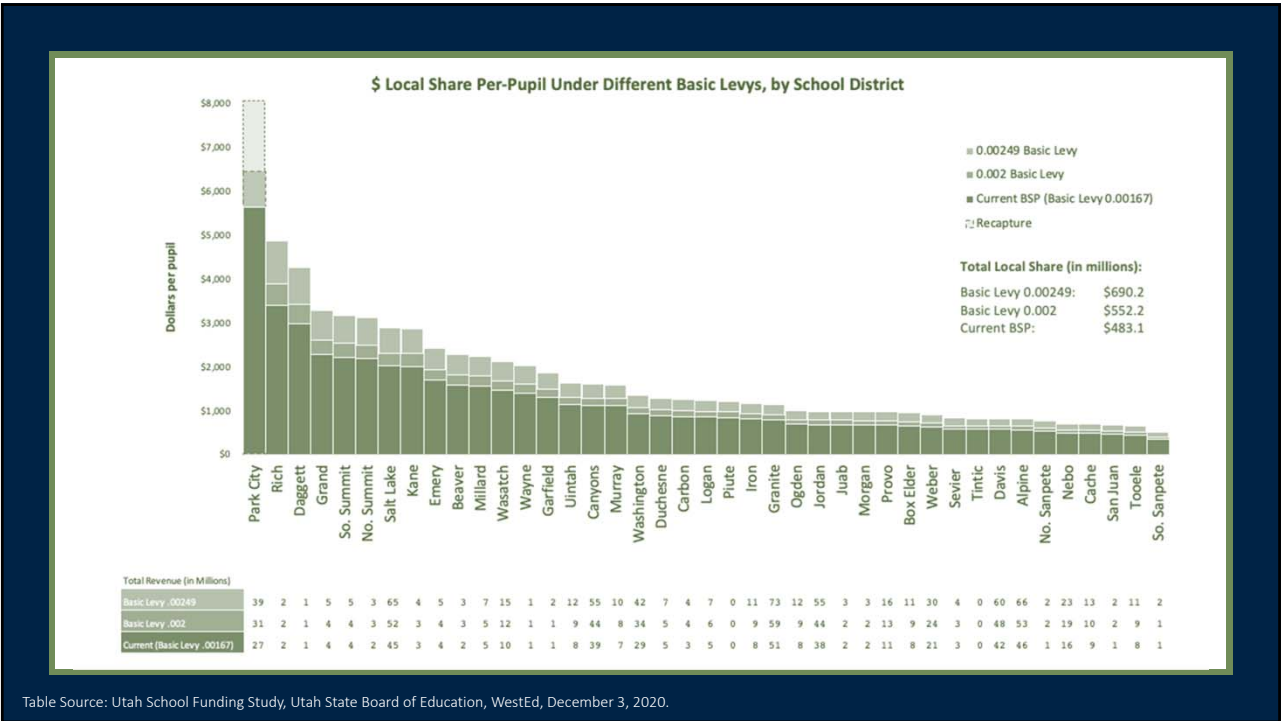


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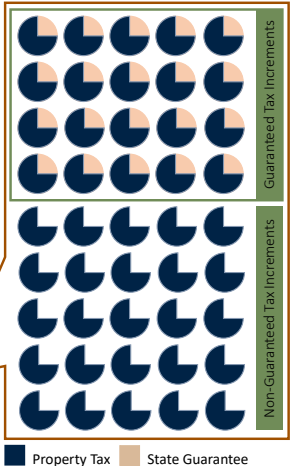
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Partially Equalized: Voted & Board Local Levies

2022 Interim | Enhancing Current Equalization Mechanisms

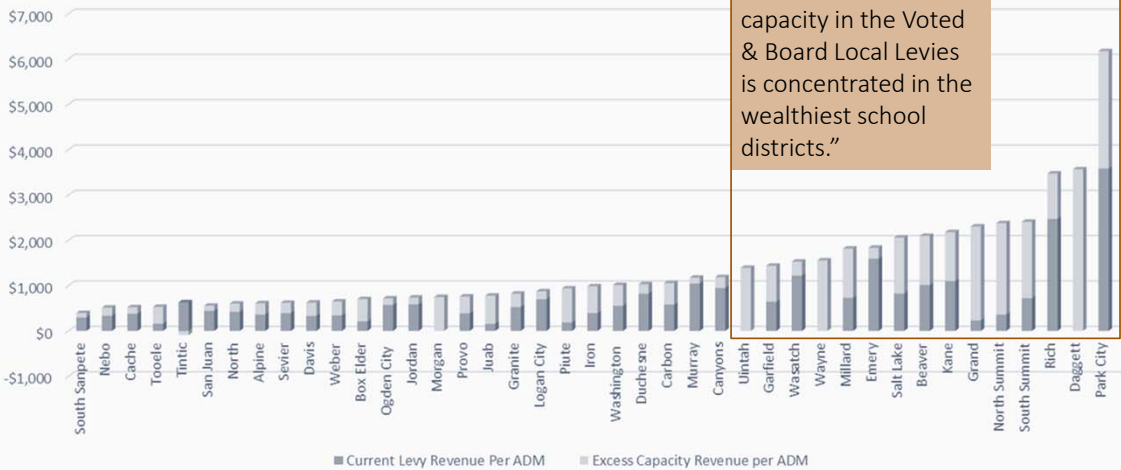
Discretionary Property Tax Levies

- Designed to Complement the Basic School Program
 - Provide Educational Facilities and Opportunities Beyond the Minimum Program.
 - Currently More Integrated Into Core Functions of a School District
 - State Guarantee: Minimum Funding Level if District Levies the Tax
 - Guarantee for Each Tax Increment and Each WPU
 - Only Partially Equalized
- What does it take to improve equalization?
 - Increase the State Guarantee Rate – Districts May Qualify as the Rate Increases
 - Increase the Number of Tax Increments Guaranteed
 - Current Program Guarantees 20 of 45 Increments
 - Tax Increment = Tax Rate of 0.0001
 - Recent Enhancements Funded by Leveraging the Statewide Basic Rate
- The Ability of Locals to Generate Increased Revenue Varies
 - Increases in Some Districts Could Worsen Overall Equalization

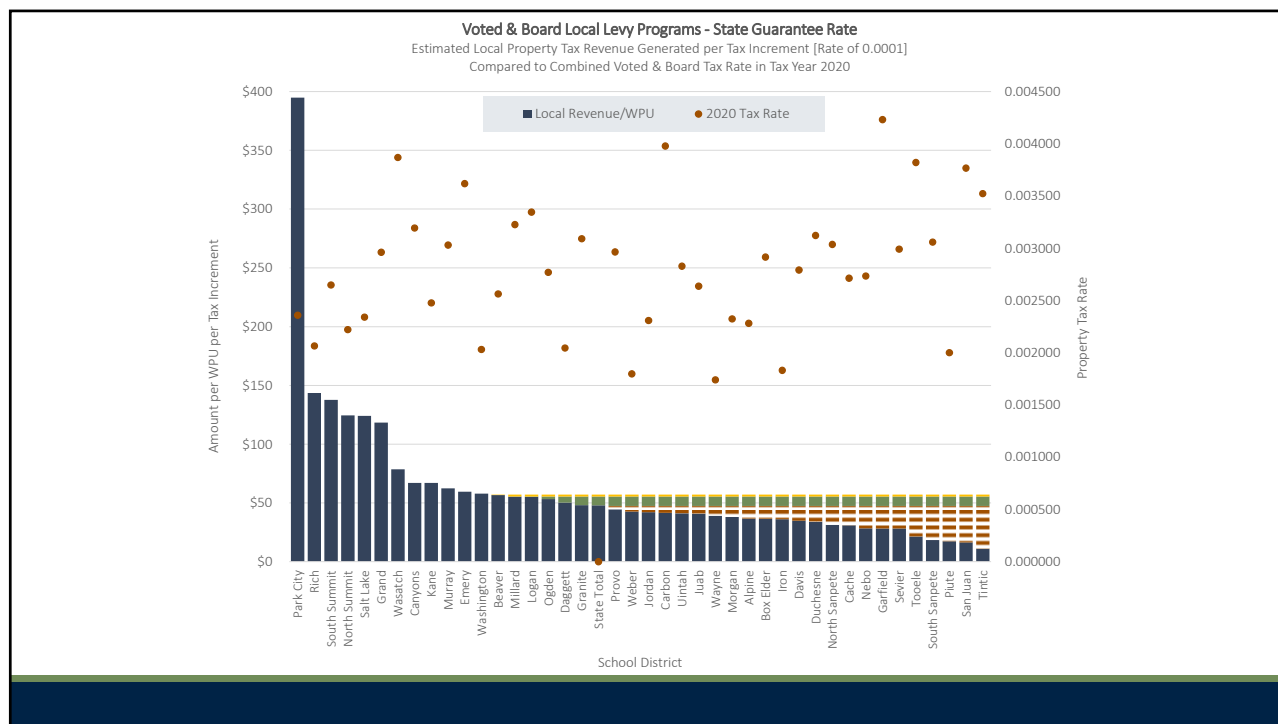


Notes: Statute, 53F-2-103.

Voter Current Levy Revenue per ADM Compared with Excess Capacity Revenue per ADM



Quote and Table Source: Utah School Funding Study, Utah State Board of Education, WestEd, December 3, 2020.



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How should equalization efforts continue?

2022 Interim | Equity Pupil Funding

Questions & Discussion

- What focus should be placed on leveraging the Basic Rate to improve equity funding?
 - Should future equalization efforts remain in the Basic School Program to strengthen equalization through the WPU/WPU Value or continue to support equalization of the discretionary levies? Or a hybrid approach?
- The Basic Rate remains the best mechanism to equalize tax burden and shift revenue to benefit to lower wealth districts.
 - What interest is there to explore options with the Basic Rate?
 - How much should the Basic Rate contribute to the cost of WPUs?
- The Equity Pupil Rate (freeze) ends in FY23, should the WPU Value Rate continue?
 - WPU Rate supports Teacher & Student Success Program (TSSP)
 - H.B. 478 proposed ending both rates
 - Could the WPU Rate be modified to support both TSSP and property tax equalization?
- What other efforts should be made?
 - One proposal to adjust who benefits from property taxes on centrally assessed properties.
 - Are there ways to increase rates and revenues in wealthier districts, shift funding, and lower rates in less wealthy districts? Making tax changes partially revenue neutral?



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Questions?



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