



PROPERTY TAXES & SCHOOL FUNDING IN UTAH

OFFICE OF LEGISLATIVE RESEARCH AND GENERAL COUNSEL

HIGHLIGHTS

- The property tax is a significant public education funding source. In fact, more than half of property taxes imposed statewide are for public education (about \$1.3 billion of the total \$2.5 billion).
- School property tax resources vary throughout the state. The property tax base per student varies dramatically among school districts, from about \$2,730,000 in Park City School District to about \$130,000 in Tooele County School District in tax year 2009. Charter schools cannot impose property taxes.
- Property tax rates vary among school districts throughout the state, ranging from 0.003656 in Wayne County School District to 0.009132 in Tintic School District in tax year 2009.
- Property tax revenues per student vary throughout the state, ranging from a high of nearly \$11,000 per student in Park City School District to a low of about \$950 per student in Piute County School District in tax year 2009.
- The basic program and various other components of the minimum school program are fully equalized on both the revenue and expenditure side of the budget. In other words, taxpayers statewide pay on a similar basis and students statewide are funded on a similar basis.
- Other programs such as the board and voted leeway programs are partially equalized statewide on the expenditure side through state funding guarantees.
- The existing state equalization programs for school capital outlay provide a minimal amount of funding to offset disparities in property tax resources.

Property Taxes & K-12 School Funding

The property tax is currently a significant public education funding source, providing roughly 30% of total public education funding. Examined another way, in tax year 2009, local taxing entities imposed about \$2.5 billion in property taxes statewide. School districts imposed about 54% of that total, or about \$1.3 billion.

This briefing paper examines school property taxes in Utah, including a review of the property tax base, property tax rates, and property tax revenues for schools. In addition, it summarizes existing equalization programs established to mitigate the disparity in property tax resources among local educational entities and concludes with some issues that policymakers may wish to consider when examining the state's education funding system.

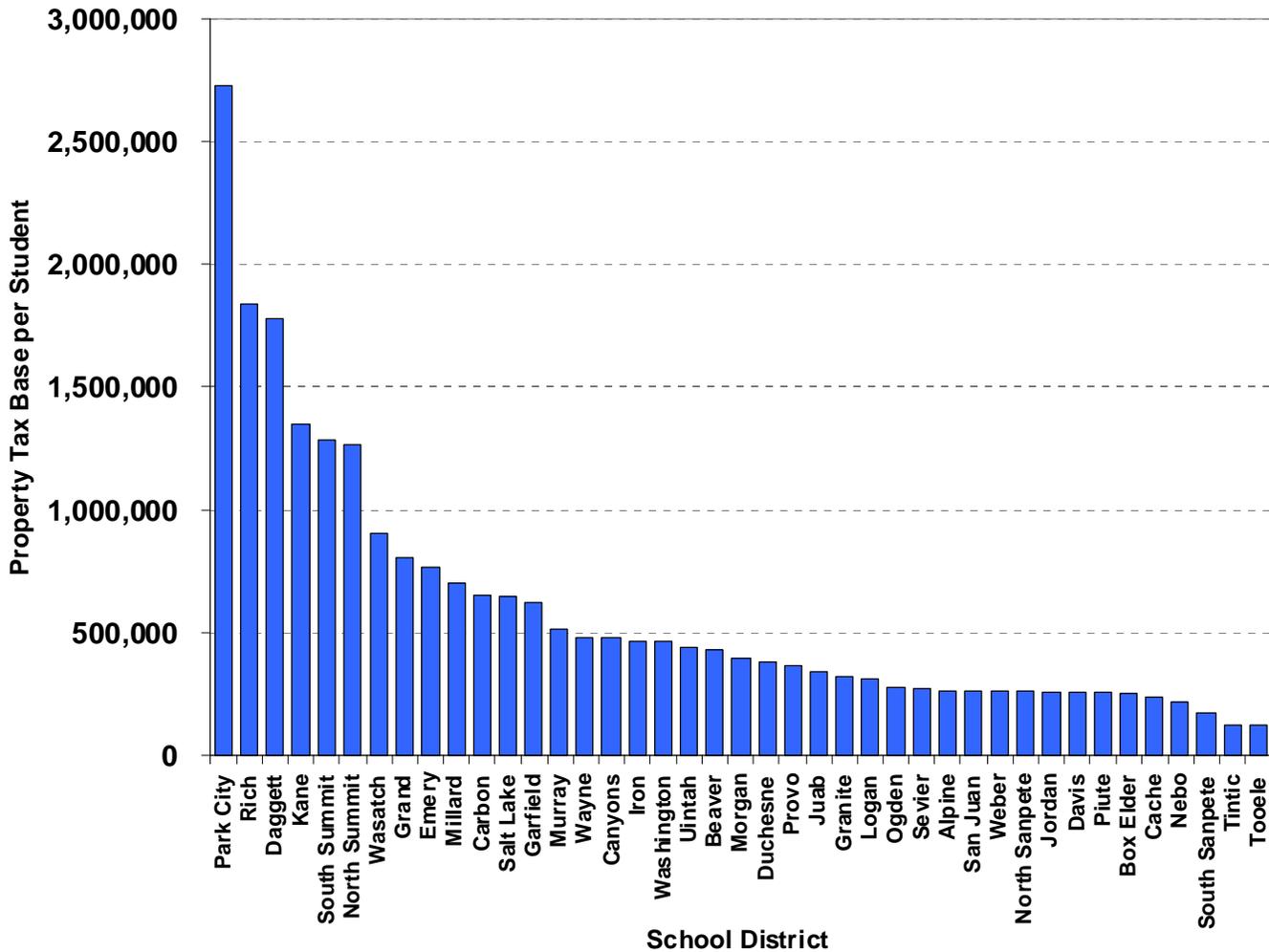
PROPERTY TAX BASE

School property tax resources vary significantly throughout the state. As Figure 1 shows, the property tax base (taxable value) per student varies dramatically among school districts, from a high of about \$2,730,000 in Park City School District to a low of about \$130,000 in Tooele County School District. Although they are public schools, charter schools have no property tax base and therefore cannot impose property taxes.

Differences in the property tax base among school districts are due to many factors, such as:

- general differences in fair market value in different areas;
- different mixes of property types that tend to have different values (such as commercial and residential property); and
- varying property tax treatment of different types of property due to exemption or special valuation treatment (such as primary residential property being taxed at 55% of fair market value and certain agricultural property at its value for agricultural use).

Figure 1
Property Tax Base Per Student, by School District, Tax Year 2009



These property tax base differences have important ramifications for property tax rates and revenues among school districts. For example, if Park City School District and Tooele County School District were both to impose an identical tax rate of 0.000100, Park City School District would generate over twenty times as much revenue per student as Tooele County School District (\$273 compared to \$13 per student).

PROPERTY TAX RATES

School districts do not have autonomous authority to impose property taxes. Rather, they have authority only as granted by the Legislature. Current statutes authorize school districts to impose 13 property tax

levies. A brief explanation of each authorized levy is shown in Figure 2.

These levies are sometimes categorized as follows:

- **Maintenance and operations levies**, consisting of the basic levy, board leeway, voted leeway, K-3 reading levy, Public Law 81-874 levy, and the portion of 10% of basic levy used for textbooks and supplies;
- **Capital outlay / debt service levies**, consisting of the debt service levy, capital outlay levy, voted capital outlay levy, and the portion of the 10% of basic levy used for capital outlay; and
- **Other levies**, consisting of the special transportation levy, recreation levy, judgment levy, and tort liability levy.

**Figure 2
School Property Tax Levies Authorized in Statute, Tax Year 2009**

Levy	Description	Statutory Reference	# of Districts Imposing (out of 41)	Estimated Revenue
Basic levy	Uniform tax rate imposed statewide to partially fund the basic program (WPU allocations), Legislature annually sets the revenue amount in statute and Tax Commission determines the rate estimated to generate that revenue amount	53A-17a-135 53A-17a-136	41	\$277 M
Voted leeway	Local option levy approved by the school district electorate, rate limit of 0.002000, some related state funding provided	53A-17a-133	33	\$254 M
Board leeway	Local option levy approved by local school board, rate limit of 0.000400 (combined voted & board leeway capped at 0.002000), must be used for class size reduction unless board certifies class size needs met, some related state funding provided	53A-17a-134	36	\$61 M
K-3 reading levy	Local option levy approved by local school board for K-3 reading improvement program, rate limit of 0.000121, some related state funding provided	53A-17a-151	34	\$18 M
10% of basic	Local option levy approved by local school board for debt service, school building construction or remodeling, purchase of school sites, buses, equipment, textbooks, and supplies, rate limited to rate that yields 10% of the cost of the basic program	53A-17a-145	38	\$105 M
Debt service	Local option levy in effect approved by school district electorate when bonds are authorized, tax levy imposed annually by school board to service bonds, no specific rate limit (although is limited by generally applicable bonding limits)	11-14-310	35	\$293 M
Capital outlay	Local option levy approved by local school board for capital outlay purposes, rate limit of 0.002400, up to 0.000200 rate may be used for maintenance of school facilities	53A-16-107	41	\$198 M
Voted capital outlay	Local option levy approved by school district electorate, rate limit of 0.002000 (not currently imposed)	53A-16-110	0	\$0
Transportation	Local option levy approved by local school board for transportation of students, rate limit of 0.000300, some related state funding provided	53A-17a-127	39	\$19 M
Recreation	Local option levy approved by local school board for recreation purposes, no rate limit	11-2-1 11-2-6 11-2-7	37	\$30 M
Judgment	Local levy approved by local school board to pay judgments against the board or tax refunds (often used for successful taxpayer valuation appeals)	53A-16-111 59-2-1330	1	\$0.1 M
Tort liability	Local option levy approved by local school board for payment of claims, settlements, judgments and related costs, rate limit of 0.000100	63G-7-704	33	\$5 M
Public Law 81-874	Local option levy approved by local school board that may be imposed if certain federal funds – Federal Impact Aid – decrease (not currently imposed)	53A-17a-143	0	\$0

Figure 3
School Property Tax Rates by Category, Tax Year 2009

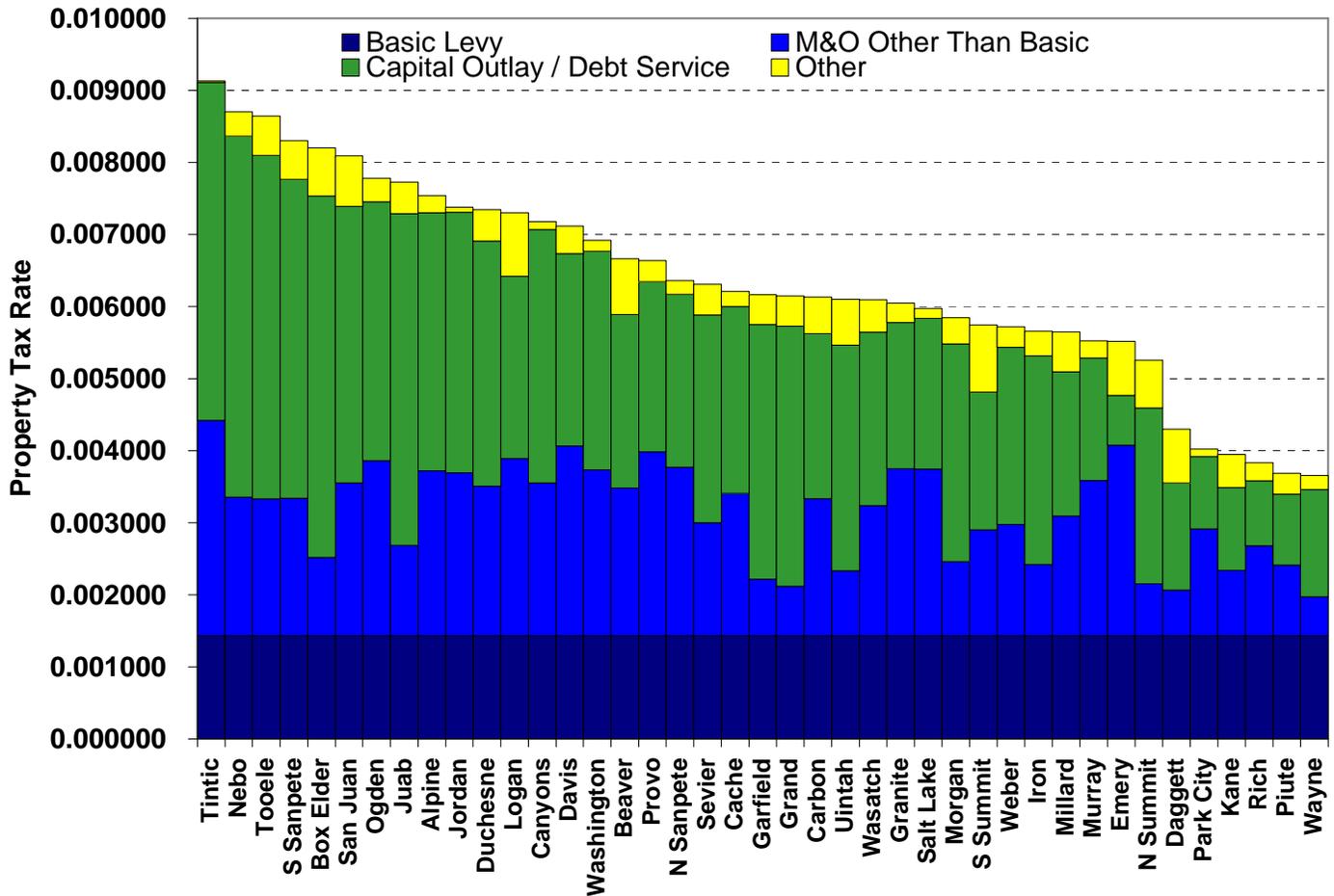


Figure 3 shows school district tax rates by category. As the figure illustrates, tax rates vary from a high of 0.009132 in Tintic School District to a low of 0.003656 in Wayne County School District. This corresponds to property tax of about \$1,256 in Tintic School District and \$503 in Wayne County School District on a \$250,000 primary residence.

Figure 3 also illustrates that, even though differences exist among the various levy categories besides the uniform basic levy, much of the variation in school property tax rates comes from the capital outlay and debt service levies. In fact, some school districts' capital outlay and debt service levies alone exceed some other school districts' entire tax rate.

Figure 4 shows the property tax base per student and the total tax rate, by school district. Not surprisingly, school districts with a smaller tax base per student generally tend to have higher overall tax rates, while school districts with a larger tax base per student generally tend to have lower tax rates.

PROPERTY TAX REVENUES

Due to differences in property tax base and property tax rates, property tax revenues vary by school district. Property tax revenues per student vary throughout the state, ranging from a high of nearly \$11,000 per student in Park City School District to a low of about \$950 per student in Piute County School District in tax year 2009.

However, as will be reviewed later, the basic program fully equalizes the revenue disparities associated with the basic levy. Because of this, it is also useful to examine revenues from property tax levies other than the basic levy.

Figure 5 shows property tax revenues and property tax rates other than the fully equalized basic levy, by school district. As the chart illustrates, some school districts with a larger property tax base per student impose lower tax rates and still receive greater property tax revenues because they have a larger tax

base per student. For example, Park City School District imposes a tax rate of 0.002590 for levies other than the basic levy, generating about \$7,100 per student. South Sanpete School District, a roughly similarly sized district, imposes a tax rate of 0.006871 for levies other than the basic levy,

generating about \$1,200 per student. In other words, for a tax rate over 2½ times as high, South Sanpete School District generates about one-sixth the amount of revenue per student in levies other than the basic levy.

Figure 4
School Property Tax Base and Tax Rates by School District, Tax Year 2009

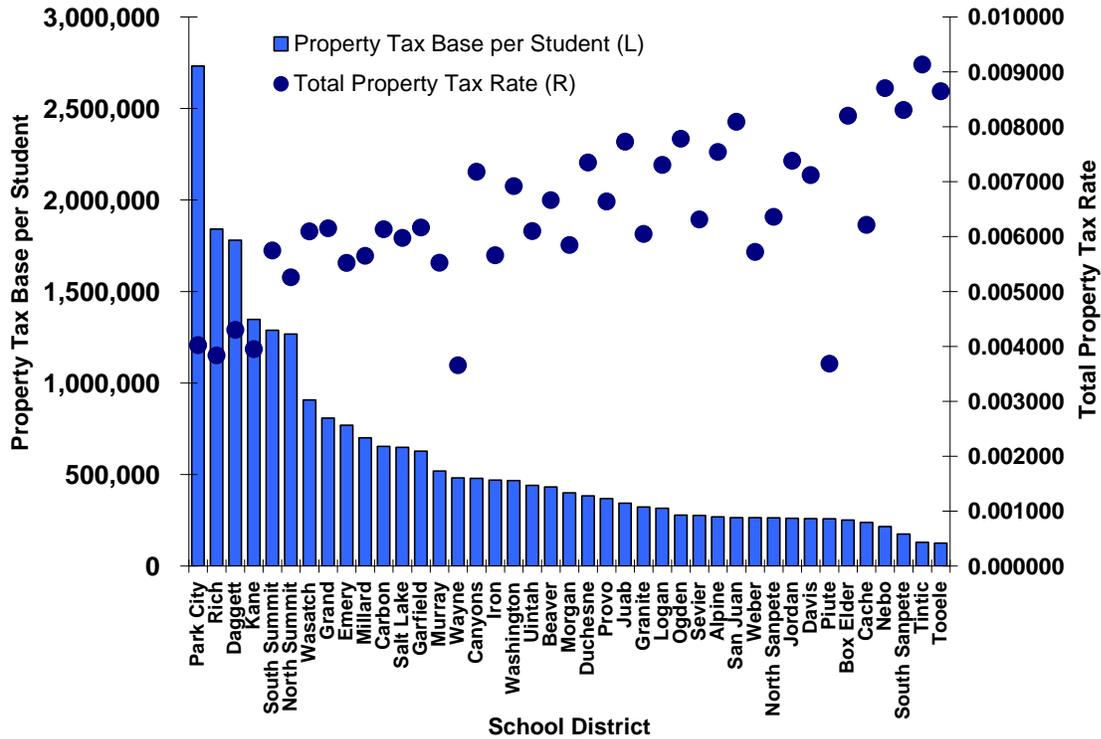
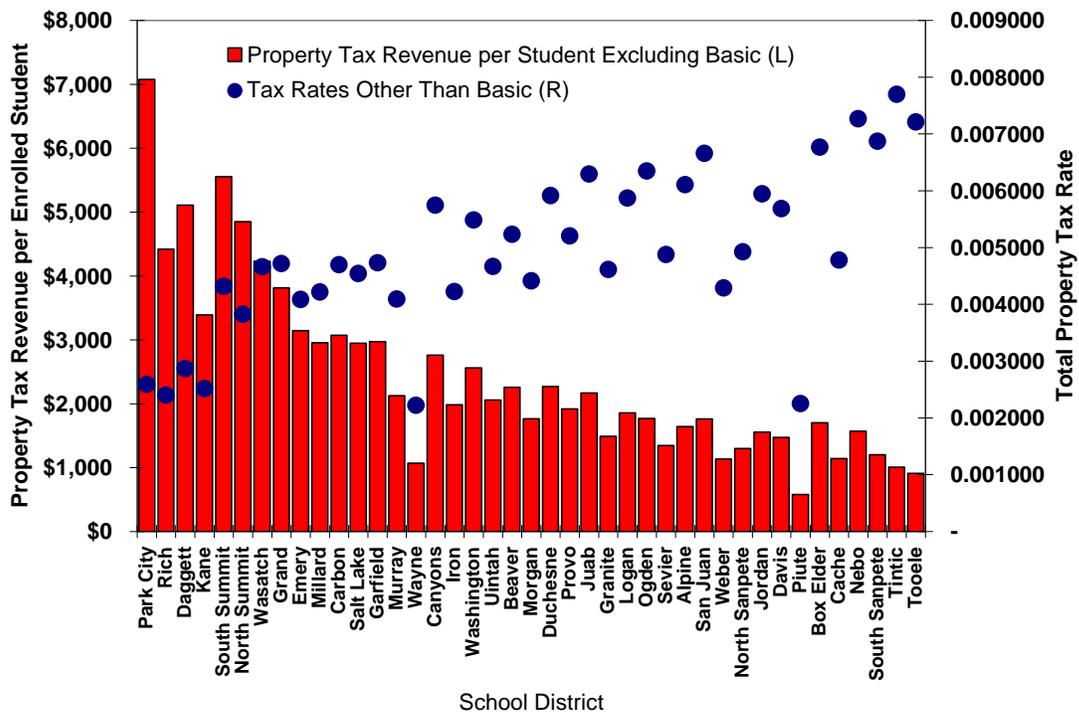


Figure 5
School Property Tax Revenues and Tax Rates by School District, Tax Year 2009



EQUALIZATION

Various definitions of equalization exist. As used in this briefing paper, tax equalization means that similarly situated taxpayers are treated similarly and expenditure equalization means that similar students are funded similarly. This does not mean that each taxpayer or each student is treated identically statewide. Rather, it means that taxpayers or students with similar characteristics are treated similarly no matter where they live in the state.

Tax Equalization

The main funding sources for public schools are the income tax and the property tax. The income tax is a fully equalized revenue source statewide. This is true even though the amount of tax due varies with income and even though taxpayers with identical income may pay different amounts of tax because of differing tax deductions and tax credits. However, any particular taxpayer is required to pay the identical tax amount no matter where in the state that taxpayer lives.

Unlike the fully equalized statewide income tax, only one of the thirteen authorized property tax levies is fully equalized statewide. The basic levy is a fully equalized revenue source because a uniform tax rate is applied to the taxable value of property statewide. That is, property throughout the state is taxed at an identical tax rate under the basic levy.

The other twelve levies are not equalized statewide, so tax rates for these levies vary throughout the state. Consequently, identically valued property in different school districts may be taxed differently.

Expenditure Equalization

Analogous to tax equalization is expenditure equalization, which means that similar students are funded similarly, wherever located. It does not mean that each student is funded identically statewide.

Most minimum school program expenditures are fully equalized statewide. That is, under most components of the minimum program, similar students are funded similarly no matter where within the state they attend school.

MINIMUM SCHOOL PROGRAM

The minimum school program includes roughly 70% of school funding in Utah (about \$2.95 billion in FY 2010). The largest component of the minimum school program is the basic program (nearly \$1.9 billion). Other components of the minimum school program are the voted and board leeway programs (\$380 million) and other programs (about \$680 million).

Basic Program

Figure 6 illustrates the operation of the basic program. As the figure demonstrates, the basic program is fully equalized on both the tax side and expenditure side of the budget.

The basic program is funded with a combination of income taxes (\$1.6 billion) and property taxes (\$275 million). Because Utah has a uniform income tax system statewide, the income tax is a fully equalized revenue source statewide. In addition, the basic levy is fully equalized statewide because a uniform property tax rate (basic levy) is imposed statewide. So an owner of \$250,000 primary residential property in Cedar City will pay the exact same amount under the basic levy as the owner of a \$250,000 primary residential property in Salt Lake City.

The basic program is also fully equalized statewide on the expenditure side through the WPU allocation methodology. That is, similarly situated students are funded similarly throughout the state.

Figure 7 shows total basic program allocation amounts for school districts and charter schools, as well as the revenue sources for those allocations. As can be seen, the basic program is largely a state-funded program, with only Park City School District fully funding its basic program with property taxes.

Voted and Board Leeway Programs

Two of the thirteen authorized levies are the voted leeway and the board leeway. Each local school board establishes the tax rate it will impose, subject to the levy's limits and requirements (such as voter approval for the voted leeway). Consequently, tax rates, and associated taxpayer and revenue per student impacts, for the program vary statewide.

Figure 6
Basic Program for Two Hypothetical School Districts

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

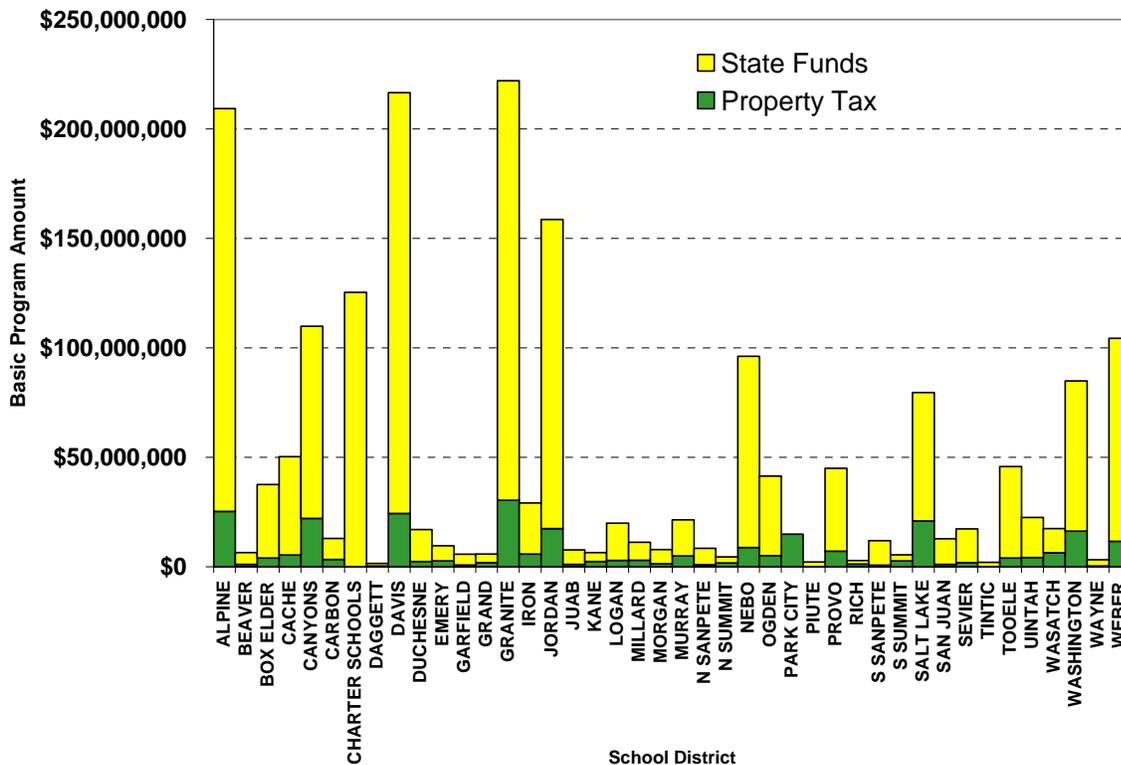


- Under the basic program, each school district and charter school is guaranteed the amount of revenue generated by its number of weighted pupil units (WPUs) multiplied by the value of the WPU.

- Each school district imposes a uniform property tax rate, called the basic levy.

- The state allocates the remaining revenue required to fully fund the statutory WPU allocation, after accounting for revenue generated by the basic levy.

Figure 7
Basic Program Allocations



EQUALIZATION POLICY CONSIDERATIONS

In addition to the revenue generated locally through the voted and board leeway, expenditures are partially equalized through a state guarantee. Under the guarantee, the state allocates revenue to school districts imposing the voted and/or board leeway property tax levies, if the property tax generated by that levy is less than a certain amount per student. Thus, the voted and board guarantee program equalizes expenditures to some degree, although it does not directly equalize property tax rates.

Other Programs

Programs other than the basic program and voted and board leeway programs within the minimum school program, such as the youth at risk, interventions for student success, and critical languages and dual immersion programs, are also considered to be fully equalized because they are subject to a uniform income tax and uniform expenditure allocation statewide. However, there is no property tax component to these programs.

CAPITAL OUTLAY EQUALIZATION

In 2009, school districts imposed approximately \$535 million in property taxes for capital outlay and debt service, which constitutes roughly 20% of all property taxes imposed by all taxing entities.

In FY 2009-10, the state allocated about \$22 million for capital outlay expenditure equalization through the capital outlay foundation and capital outlay enrollment growth programs.

So, unlike the operations component of school funding where well over \$2 billion dollars of state revenues are allocated in an equalized fashion (including about \$1.6 billion in state revenue for the fully equalized basic program), school districts are largely on their own for capital outlay funding. This means that capital outlay funding is greatly impacted by the enormous property tax base per student disparities among school districts.

In addition, charter schools do not have direct access to property tax resources for capital outlay, although funding mechanisms currently exist to at least partially offset that funding difference.

In examining the existing school funding arrangement and contemplating changes to this system, policymakers may wish to consider the following:

- To what extent should educational resources be similar for similarly situated students statewide?
- What are the student characteristics or other criteria on which school funding should be based?
- Should charter school students be funded similar to school district students?
- To what extent should taxpayers with similar property values make similar contributions for education funding?
- With what revenue sources should schools be funded?
- Should existing equalization programs such as the basic program, voted and board leeway programs, and other programs change?
- Should additional equalization programs be created?

To the extent that additional tax or expenditure equalization is desired:

- What revenue source should be used?
- Should equalization be accomplished with new revenues or existing revenues?
- Should the equalization effort focus on school operations? Capital outlay? Both?
- To what degree should local taxing authority remain and in what form?
- How should program allocations be made?

SUMMARY

In conclusion, the property tax is a significant part of Utah's education funding system. Property tax base, rates, and revenues vary significantly among school districts. Charter schools do not have direct access to property tax resources. Various full and partial equalization programs exist under the minimum school program. Minimal equalization exists for capital outlay.