

PARADOX LOST: UTAH'S PUBLIC EDUCATION FUNDING EFFORT NO LONGER SURPASSES THE NATION

Recently, the U.S. Census Bureau released a detailed report on public education funding in the 50 states plus the District of Columbia. It was no surprise that Utah ranked 51st in education spending per pupil, since the state's large student population has made it difficult to be anything but last in the nation for many years. However, some news articles took note of another measure in the report – Utah's education tax revenues per \$1,000 of personal income. This is a measure of “funding effort” or how heavily we are willing to tax ourselves to pay for public education. In this measure, Utah ranked 27th, or just below the national average. The conclusion was that Utah's effort for funding education was not bad, but our conditions (the large child population) cause that effort to yield the lowest funding per pupil.

RECENT HISTORY OF UTAH'S EDUCATION FUNDING EFFORT

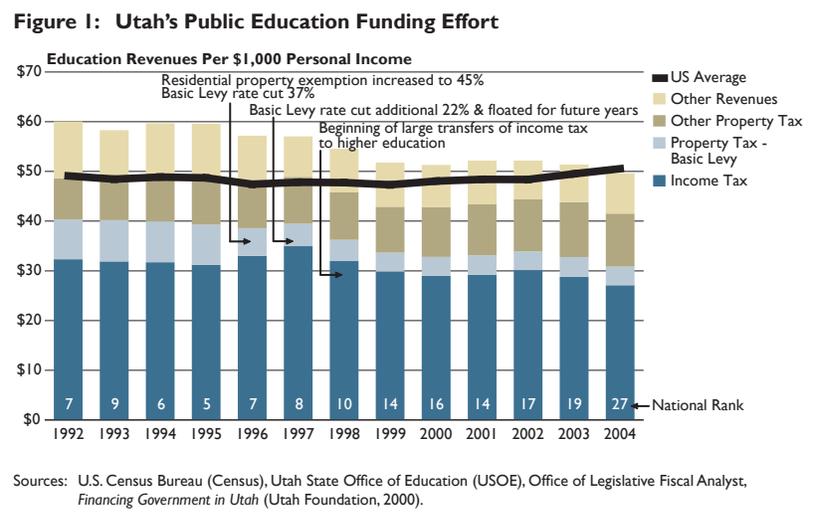
Utah Foundation has written several times about this disparity between effort and funding outcome, calling it “Utah's education paradox.” In the early and mid-1990s, the paradox was quite stark – Utah's funding effort was very high, even fifth highest in the nation in 1995 and within the top 10 states for most of the decade. However, that paradox no longer exists. Utah can no longer lay claim to a very high, or even above-average, effort for funding education. The funding effort that existed in the early 1990s has diminished largely because of tax and budget changes that have reduced the growth in property tax and income tax revenues appropriated to public education.

From 1992 to 1995, Utah's funding effort for education held steady at about \$60 per \$1,000 of personal income. This means that Utah individuals and businesses paid taxes specifically for public education

that equaled about six percent of all income earned in the state. In 1995, this was the fifth highest funding effort in the nation. Although Utah had the lowest per-pupil funding in the nation, at least it wasn't for lack of trying.

TAX AND BUDGET CHANGES LED TO DIMINISHED FUNDING EFFORT

Four major changes in tax and budget policy during the 1990s had an impact on Utah's funding effort for public education. Three



of the policy changes dealt with property taxes. During the 1980s and even back to the late 1970s, Utah legislators faced a great deal of taxpayer discontent over property taxes. In 1985, the “Truth in Taxation” act was passed, placing pressure on local agencies to reduce property tax rates when property values rise. During the 1990s, property values began rising again at a

fast pace, and calls for more property tax reform resulted in three significant changes that affected school funding:

1. Effective in the 1996 fiscal year, the Legislature increased the property tax exemption for primary residences to 45% of the value of the property. This exemption had been raised several times over five years from what had been a 20% “discount” in the 1980s.

2. Also in 1996, the Legislature reduced the state mandated property tax levy for schools from .004220 to .002640. This rate was again lowered to .002046 the following year. These rate reductions had a larger effect on revenue collections than the changes in the residential exemption.

Figure 2: Public Education Revenues and Current Spending Per \$1,000 Personal Income

| Public Education Revenues Per \$1,000 Personal Income* | | | | |
|--|---------|------|---------|---------------------------|
| Year | Utah | Rank | U.S. | Utah Percent of U.S. Avg. |
| 1992 | \$60.06 | 7 | \$49.09 | 122.3% |
| 1993 | 58.31 | 9 | 48.45 | 120.4% |
| 1994 | 59.68 | 6 | 48.87 | 122.1% |
| 1995 | 59.59 | 5 | 48.71 | 122.3% |
| 1996 | 57.18 | 7 | 47.43 | 120.6% |
| 1997 | 57.05 | 8 | 47.83 | 119.3% |
| 1998 | 54.53 | 10 | 47.76 | 114.2% |
| 1999 | 51.77 | 14 | 47.3 | 109.5% |
| 2000 | 51.32 | 16 | 48.05 | 106.8% |
| 2001 | 52.18 | 14 | 48.4 | 107.8% |
| 2002 | 52.18 | 17 | 48.37 | 107.9% |
| 2003 | 51.38 | 19 | 49.52 | 103.8% |
| 2004 | 49.62 | 27 | 50.53 | 98.2% |

| Public Education Current Spending Per \$1,000 Personal Income* | | | | |
|--|---------|------|---------|---------------------------|
| Year | Utah | Rank | U.S. | Utah Percent of U.S. Avg. |
| 1992 | \$52.32 | 8 | \$43.68 | 119.8% |
| 1993 | 50.58 | 12 | 43.16 | 117.2% |
| 1994 | 51.52 | 8 | 43.51 | 118.4% |
| 1995 | 50.29 | 9 | 42.9 | 117.2% |
| 1996 | 49.37 | 7 | 41.59 | 118.7% |
| 1997 | 47.9 | 10 | 41.74 | 114.8% |
| 1998 | 45.11 | 19 | 41.32 | 109.2% |
| 1999 | 42.83 | 21 | 40.71 | 105.2% |
| 2000 | 41.93 | 26 | 41.27 | 101.6% |
| 2001 | 42.41 | 26 | 41.59 | 102.0% |
| 2002 | 42.81 | 26 | 42.1 | 101.7% |
| 2003 | 41.96 | 28 | 43.24 | 97.0% |
| 2004 | 40.46 | 36 | 43.68 | 92.6% |

* Current spending excludes amounts spent on capital construction, interest on debt, adult education, and other non-K-12 programs. The revenue figures include all revenues for public education, including those spent on non-current expenditures.

Source: Census

3. After 1996, the Legislature began to “float” the rate for the statewide basic property tax levy. Instead of the prior practice of keeping the rate steady for three to four years and allowing revenues to increase with rising property values, the Legislature began determining how much revenue was desired from the basic levy and asking state tax experts to set the rate to meet the desired revenue. In most years since then, this has resulted in a reduction in the basic levy rate.

These changes significantly reduced property tax revenues for schools. When these changes were first implemented, the state was experiencing budget surpluses, and rapidly growing income tax revenues were sufficient to offset the property tax decline in 1996 and 1997 and continue to maintain a high funding effort. However, the fourth major change to public education revenues was implemented in 1997, causing a reduction in the growth of income tax funds appropriated for K-12 education and leading to a significant decline in education funding effort.

In November 1996, voters approved a constitutional amendment to allow income tax revenues to be appropriated for higher education as well as for K-12 public education. Previously, the constitution required that only K-12 public education receive funds from the income tax. In addition to the constitutional change in earmarking, the Legislature enacted reductions in income tax rates in 1996 and 1997.

The transfer of income tax funds to higher education did not provide a significant increase in overall spending on higher education, but was largely matched by a reduction in general fund appropriations to higher education, allowing general funds to be spent on other

programs, most notably health, human services, corrections, and transportation infrastructure.¹

Figure 1 shows how these four tax and budget reforms have contributed to a decline in Utah’s funding effort for public education. If the property tax reforms had been enacted without the change in income tax earmarking, perhaps the funding effort for public education would still be high compared to other states. But combining the reduction in property tax rates with a reduction in the growth of income tax appropriations has significantly reduced Utah’s historically strong efforts to fund K-12 schools.

RECENT TRENDS IN PER-PUPIL SPENDING

It is well known that Utah has the lowest per-pupil spending rate in the U.S. But many may not realize that the gap between Utah’s per-pupil spending and the nation has been widening. In 2000, the difference between Utah’s per-pupil spending (\$4,331) and the national average (\$6,836) was \$2,505. In four years, that difference rose 31% to \$3,279 in 2004. In 2000, the gap between Utah and Mississippi (the next lowest state) was \$683. In 2004, Idaho fell to the second-to-last position but spent \$1,020 more than Utah per pupil. Of all the states in that time period, only Nevada and Oregon had lower increases in per-pupil spending than Utah.

Figure 3: Per Pupil Spending, 2000 & 2004

| State | 2000 | Rank | 2004 | Rank | Difference | Rank | % Difference | Rank |
|----------------------|----------------|------|----------------|------|----------------|------|--------------|------|
| United States | \$6,836 | | \$8,287 | | \$1,451 | | 21.2% | |
| Alabama | 5,601 | 43 | 6,553 | 44 | 952 | 44 | 17.0% | 40 |
| Alaska | 8,743 | 5 | 10,114 | 8 | 1,371 | 29 | 15.7% | 43 |
| Arizona | 5,033 | 49 | 6,036 | 49 | 1,003 | 41 | 19.9% | 31 |
| Arkansas | 5,470 | 45 | 6,740 | 42 | 1,270 | 33 | 23.2% | 19 |
| California | 6,298 | 29 | 7,748 | 26 | 1,450 | 23 | 23.0% | 20 |
| Colorado | 6,165 | 32 | 7,412 | 32 | 1,247 | 34 | 20.2% | 29 |
| Connecticut | 8,800 | 4 | 10,788 | 5 | 1,988 | 9 | 22.6% | 22 |
| Delaware | 8,030 | 8 | 10,228 | 7 | 2,198 | 5 | 27.4% | 10 |
| D.C. | 10,836 | 1 | 12,801 | 3 | 1,965 | 10 | 18.1% | 38 |
| Florida | 5,691 | 41 | 6,784 | 41 | 1,093 | 38 | 19.2% | 35 |
| Georgia | 6,417 | 27 | 7,733 | 27 | 1,316 | 30 | 20.5% | 25 |
| Hawaii | 6,487 | 25 | 8,533 | 19 | 2,046 | 8 | 31.5% | 3 |
| Idaho | 5,218 | 48 | 6,028 | 50 | 810 | 46 | 15.5% | 46 |
| Illinois | 7,185 | 16 | 8,656 | 18 | 1,471 | 22 | 20.5% | 27 |
| Indiana | 6,871 | 21 | 8,280 | 22 | 1,409 | 26 | 20.5% | 26 |
| Iowa | 6,547 | 24 | 7,631 | 29 | 1,084 | 39 | 16.6% | 41 |
| Kansas | 6,211 | 31 | 7,518 | 31 | 1,307 | 32 | 21.0% | 24 |
| Kentucky | 5,922 | 37 | 6,888 | 40 | 966 | 42 | 16.3% | 42 |
| Louisiana | 5,652 | 42 | 7,209 | 36 | 1,557 | 19 | 27.5% | 7 |
| Maine | 7,595 | 13 | 9,534 | 11 | 1,939 | 13 | 25.5% | 15 |
| Maryland | 7,496 | 14 | 9,212 | 14 | 1,716 | 15 | 22.9% | 21 |
| Massachusetts | 8,444 | 6 | 10,693 | 6 | 2,249 | 4 | 26.6% | 11 |
| Michigan | 7,662 | 12 | 9,072 | 15 | 1,410 | 25 | 18.4% | 37 |
| Minnesota | 7,051 | 18 | 8,359 | 21 | 1,308 | 31 | 18.6% | 36 |
| Mississippi | 5,014 | 50 | 6,237 | 47 | 1,223 | 35 | 24.4% | 18 |
| Missouri | 6,143 | 34 | 7,331 | 33 | 1,188 | 36 | 19.3% | 34 |
| Montana | 6,214 | 30 | 7,763 | 25 | 1,549 | 20 | 24.9% | 17 |
| Nebraska | 6,422 | 26 | 8,032 | 24 | 1,610 | 17 | 25.1% | 16 |
| Nevada | 5,736 | 40 | 6,399 | 46 | 663 | 50 | 11.6% | 50 |
| New Hampshire | 6,742 | 23 | 8,860 | 17 | 2,118 | 7 | 31.4% | 4 |
| New Jersey | 10,283 | 2 | 12,981 | 1 | 2,698 | 3 | 26.2% | 12 |
| New Mexico | 5,748 | 39 | 7,331 | 33 | 1,583 | 18 | 27.5% | 9 |
| New York | 10,039 | 3 | 12,930 | 2 | 2,891 | 2 | 28.8% | 5 |
| North Carolina | 5,990 | 36 | 6,702 | 43 | 712 | 48 | 11.9% | 49 |
| North Dakota | 5,830 | 38 | 7,727 | 28 | 1,897 | 14 | 32.5% | 2 |
| Ohio | 6,999 | 20 | 8,963 | 16 | 1,964 | 11 | 28.1% | 6 |
| Oklahoma | 5,394 | 46 | 6,176 | 48 | 782 | 47 | 14.5% | 47 |
| Oregon | 7,027 | 19 | 7,619 | 30 | 592 | 51 | 8.4% | 51 |
| Pennsylvania | 7,824 | 10 | 9,979 | 9 | 2,155 | 6 | 27.5% | 8 |
| Rhode Island | 8,242 | 7 | 9,903 | 10 | 1,661 | 16 | 20.2% | 30 |
| South Carolina | 6,114 | 35 | 7,184 | 37 | 1,070 | 40 | 17.5% | 39 |
| South Dakota | 5,521 | 44 | 6,949 | 39 | 1,428 | 24 | 25.9% | 14 |
| Tennessee | 5,343 | 47 | 6,504 | 45 | 1,161 | 37 | 21.7% | 23 |
| Texas | 6,145 | 33 | 7,104 | 38 | 959 | 43 | 15.6% | 45 |
| Utah | 4,331 | 51 | 5,008 | 51 | 677 | 49 | 15.6% | 44 |
| Vermont | 7,938 | 9 | 11,128 | 4 | 3,190 | 1 | 40.2% | 1 |
| Virginia | 6,839 | 22 | 8,225 | 23 | 1,386 | 27 | 20.3% | 28 |
| Washington | 6,394 | 28 | 7,243 | 35 | 849 | 45 | 13.3% | 48 |
| West Virginia | 7,093 | 17 | 8,475 | 20 | 1,382 | 28 | 19.5% | 33 |
| Wisconsin | 7,716 | 11 | 9,226 | 13 | 1,510 | 21 | 19.6% | 32 |
| Wyoming | 7,421 | 15 | 9,363 | 12 | 1,942 | 12 | 26.2% | 13 |

Source: Census

Figure 4: Enrollment, Current Education Spending, and Personal Income Growth by State: 2000 to 2004

| State | Enrollment Growth | Rank | Spending Growth | Rank | Personal Income Growth: 1999 - 2003 | Rank |
|----------------------|-------------------|------|-----------------|------|-------------------------------------|------|
| United States | 2.2% | | 24.4% | | 17.5% | |
| Alabama | -1.4% | 35 | 14.6% | 48 | 17.7% | 33 |
| Alaska | -0.9% | 30 | 14.8% | 47 | 22.0% | 13 |
| Arizona | 9.4% | 2 | 30.9% | 4 | 25.5% | 3 |
| Arkansas | 0.5% | 21 | 24.6% | 19 | 18.3% | 26 |
| California | 3.5% | 11 | 28.5% | 9 | 18.5% | 23 |
| Colorado | 6.8% | 6 | 28.7% | 7 | 21.9% | 14 |
| Connecticut | 0.8% | 20 | 24.1% | 20 | 14.6% | 46 |
| Delaware | -1.2% | 33 | 25.0% | 18 | 23.2% | 7 |
| District of Columbia | -8.0% | 49 | 23.1% | 27 | 26.1% | 2 |
| Florida | 8.9% | 3 | 28.6% | 8 | 20.8% | 16 |
| Georgia | 7.0% | 4 | 28.8% | 6 | 18.2% | 28 |
| Hawaii | -1.2% | 34 | 29.7% | 5 | 16.8% | 37 |
| Idaho | 2.7% | 13 | 18.7% | 40 | 19.2% | 22 |
| Illinois | 2.8% | 12 | 23.6% | 24 | 14.4% | 49 |
| Indiana | 1.7% | 18 | 21.8% | 29 | 15.6% | 41 |
| Iowa | -3.2% | 42 | 12.9% | 50 | 14.7% | 45 |
| Kansas | -0.5% | 29 | 19.3% | 37 | 15.3% | 43 |
| Kentucky | 2.4% | 15 | 19.1% | 39 | 16.8% | 36 |
| Louisiana | -4.6% | 46 | 21.7% | 30 | 18.3% | 27 |
| Maine | -4.0% | 44 | 23.5% | 25 | 20.2% | 18 |
| Maryland | 2.7% | 14 | 26.2% | 16 | 23.5% | 6 |
| Massachusetts | -0.9% | 31 | 27.8% | 11 | 18.1% | 32 |
| Michigan | 1.7% | 16 | 19.9% | 33 | 14.5% | 48 |
| Minnesota | -3.1% | 41 | 15.0% | 45 | 18.2% | 30 |
| Mississippi | -1.6% | 36 | 22.5% | 28 | 18.2% | 29 |
| Missouri | 0.2% | 24 | 19.5% | 36 | 16.9% | 35 |
| Montana | -6.0% | 48 | 17.6% | 41 | 24.0% | 5 |
| Nebraska | -1.1% | 32 | 23.7% | 23 | 18.4% | 24 |
| Nevada | 18.4% | 1 | 32.1% | 3 | 26.8% | 1 |
| New Hampshire | -1.7% | 37 | 33.6% | 2 | 19.7% | 20 |
| New Jersey | 6.1% | 7 | 33.6% | 1 | 16.3% | 38 |
| New Mexico | -0.4% | 27 | 27.5% | 12 | 23.0% | 8 |
| New York | -2.2% | 39 | 28.5% | 10 | 11.5% | 51 |
| North Carolina | 4.8% | 9 | 17.1% | 43 | 15.5% | 42 |
| North Dakota | -9.7% | 51 | 19.7% | 34 | 22.2% | 11 |
| Ohio | -2.1% | 38 | 26.6% | 14 | 12.5% | 50 |
| Oklahoma | -0.2% | 25 | 13.8% | 49 | 20.0% | 19 |
| Oregon | 0.5% | 22 | 9.2% | 51 | 15.6% | 40 |
| Pennsylvania | -3.0% | 40 | 23.8% | 22 | 14.6% | 47 |
| Rhode Island | 0.3% | 23 | 25.7% | 17 | 22.2% | 10 |
| South Carolina | 4.4% | 10 | 23.3% | 26 | 17.4% | 34 |
| South Dakota | -4.5% | 45 | 20.3% | 32 | 21.2% | 15 |
| Tennessee | -0.5% | 28 | 21.3% | 31 | 18.3% | 25 |
| Texas | 6.9% | 5 | 23.9% | 21 | 20.6% | 17 |
| Utah | 1.5% | 19 | 17.3% | 42 | 22.2% | 12 |
| Vermont | -9.3% | 50 | 26.8% | 13 | 19.3% | 21 |
| Virginia | 5.0% | 8 | 26.3% | 15 | 22.8% | 9 |
| Washington | 1.7% | 17 | 15.2% | 44 | 14.9% | 44 |
| West Virginia | -3.9% | 43 | 14.8% | 46 | 18.2% | 31 |
| Wisconsin | -0.4% | 26 | 19.7% | 35 | 16.0% | 39 |
| Wyoming | -5.6% | 47 | 19.1% | 38 | 24.2% | 4 |

Source: Census, Bureau of Economic Analysis

To explain the increasing spending gap, one prevailing assumption has been that high enrollment growth prevents Utah from making gains in this regard. Yet, from 2000 to 2004, Utah's increase in public school enrollment was relatively modest with a four-year growth total of 1.5%, which was below the national average of 2.2%. Utah ranked 19th among the states in terms of enrollment growth during this period. Even those states with higher enrollment growth than Utah were able to increase per-pupil spending more than Utah, with the exception of Nevada. However, Nevada's slip in per-pupil spending rank wasn't from a lack of effort; Nevada had far and away the greatest enrollment growth rate at a staggering 18.4% increase, but also was third highest in increased education spending at 32.2%. During that period, Utah's total current spending on K-12 education grew 17.3%, ranking Utah 42nd in overall spending growth.

Enrollment growth will be a challenge to Utah in the future. A wave of new students entering Utah schools had just begun to show up in the most recent Census Bureau report and is accelerating at this time. The Census rankings show two states (Louisiana and South Dakota) rising out of the bottom 10 in per-pupil spending

during the past four years, and both states were experiencing a significant decline in pupil populations. Conversely, two new states joined the bottom 10 (Nevada and North Carolina), and both were experiencing a large increase in pupil populations. Looking over the ranking tables, the vast majority of the states that improved their rankings in per-pupil spending did so because enrollment was declining. Similarly, most of the states that lost ground in the rankings saw increasing enrollments, making it difficult to provide increased funding per pupil.

Utah also experienced relatively high growth in personal income from 1999-2003 (these numbers are consistent with the beginning of the 2000-2004 school years). Utah saw a 22.2% increase in personal income during this period, ranking 12th in the nation. When looking at the 18 states that had higher enrollment growth than Utah, 13 states had a higher percentage increase in education spending while having a lower percentage increase in personal income. Utah's funding effort has declined because education funding has grown slower than personal income nearly every year since 1996.

Finally, we should note that while this study has used education revenues per \$1,000 of personal income to measure Utah's funding effort, the Census report also provides another measure: current spending per \$1,000 of personal income. These numbers differ significantly, because the revenue figure includes taxes generated to pay for capital facilities and debt service, as well as adult education and other non K-12 programs. Current spending only counts the operating costs spent on K-12 education. In terms of current spending per \$1,000 of personal income, Utah's rank for effort is even worse, at 36th in 2004. One reason the difference in the rankings is so large (the revenue-based rank was 27th) is that Utah spent about \$983 per pupil on capital construction in 2004. As a growing state, Utah's capital spending should be expected to be somewhat high to provide new classrooms for the growing student population, although capital spending of \$983 per pupil is right around the national average.

SOME FINAL CALCULATIONS AND CONCLUSIONS

With Utah's large population of children, it is no surprise that the state's per-pupil funding for public education would be low. However, only ten years ago, Utahns could say that at least the low ranking was not for lack of trying. If Utah still exerted the funding effort that existed in 1995, when the state was the fifth highest in the nation, Utah would have had an additional \$1,200 per pupil available in public education revenues in 2004. That would have been an increase of \$600 million or 20% above the actual funding that year. This would have raised Utah's ranking from 51st to 47th in revenues per pupil.

On the other hand, keeping Utah's education funding effort that high would have meant \$600 million less to spend on transportation projects, health and human service programs, prisons, or in taxpayer savings. A serious consideration of priorities for public resources needs to occur, and in the coming months, Utah Foundation will invite policymakers, the public, education officials, and interest groups to

provide ideas and comments on what should be done to improve education funding and if it is possible to bring our education funding effort closer to what it was ten years ago.

To return to Utah’s traditionally high funding effort would be difficult to do all at once. A \$600 million tax increase would be economically unwise and politically foolish. But it would not have been as difficult to have maintained a higher funding effort over time, rather than a long and continuing series of reductions in property taxes and transfers of income tax to other programs. As we look to the coming years of rapid student population growth, an effort to at least maintain, and perhaps increase, Utah’s funding effort would allow growth to pay for growth – growth in the economy would naturally produce growth in education funding, and hopefully it would be enough to keep up with the baby boom “echo” that will be swelling Utah classrooms from now through the next decade.

ENDNOTES

¹ See Utah Foundation Research Report #661, October 2003. Available at www.utahfoundation.org/research.

This research report was written by Executive Director, Steve Kroes and Research Analyst, Richard Pak. Mr. Kroes and Mr. Pak may be reached for comment at (801) 355-1400. They may also be contacted by email at: steve@utahfoundation.org and rich@utahfoundation.org. For more information about Utah Foundation, please visit our website: www.utahfoundation.org.

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