

# UTAH'S EDUCATION FUNDING EFFORT UPDATE AND HISTORICAL PERSPECTIVE

## HIGHLIGHTS

- Utah's funding effort for K-12 public education fell significantly from 1996 through 2004.
- In response to large budget surpluses, the Legislature has increased Utah's education funding effort for fiscal years 2007 and 2008.
- Before the most recent two years, Utah's downward trend in funding effort was unprecedented, given the state's history of very high proportions of personal income dedicated to public education.
- Part of the reason for lower education funding effort was a change in spending priorities facilitated by loosening the earmarking of income taxes for education. Growth in health, transportation, and prison spending took higher priority in the late 1990s and early 2000s.
- After a period of rapid income tax growth, higher education is now receiving very little funding from the state general fund. This will cause the earmarking of income taxes to once again have a significant impact on budget policy choices.
- Utah's per-pupil spending for K-12 public education is last in the nation; it has held this rank since 1988. To rise by only one rank would have cost \$500 million in 2005. To rise to the national median would have cost \$1.4 billion.

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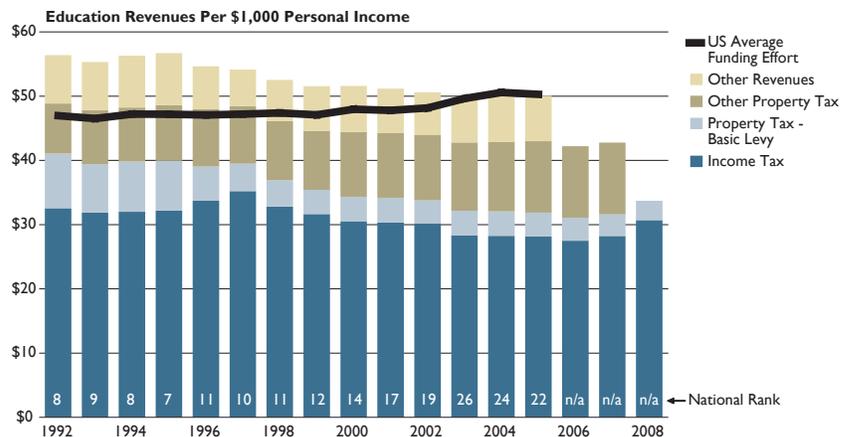
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The U.S. Census Bureau recently released data on education spending and revenue in each state for fiscal year 2005.<sup>1</sup> Utah ranked last in the nation in per-pupil spending, which has been true since 1988.<sup>2</sup> This low ranking in per-pupil spending is partly the result of the high proportion of children to the general population in Utah. In addition, Utah Foundation explained in April 2006 that another reason for the low funding was a significant decline in public education funding effort after 1995.<sup>3</sup> The 2006 report showed that the decline in funding effort was linked to property tax reductions in the mid-1990s and ongoing transfers of income taxes to higher education after voters approved a constitutional amendment relaxing the strict earmarking of income taxes for K-12 public education. After six years of funding growing slower than the Utah economy, Utah's public education funding effort had fallen from among the top 10 states to right around the national average.

In this report, as in 2006, funding effort is defined as public education revenues per \$1,000 of personal income. Measuring Utah's funding effort shows how willing Utahns are to collectively commit tax dollars to education. It also shows whether education funds are growing in line with the overall growth of Utah's economy. The new data from the Census Bureau show that in 2005, Utah's education funding effort was about \$50 per \$1,000 of personal income, meaning that taxes paid for public education equaled about five percent of all income earned in the state. Utah's national ranking for this effort is 22<sup>nd</sup> or about average.

Figure 1: Utah's Public Education Funding Effort



Sources: U.S. Census Bureau (Census), Bureau of Economic Analysis (BEA), Utah State Office of Education (USOE), Governor's Office of Planning and Budget (GOPB), Office of the Legislative Fiscal Analyst (LFA). Calculations by Utah Foundation. Data for national rankings or calculations of other revenues are not available after 2005. Figures for 2008 are based on legislative appropriations made in early 2007. Personal income data for 2007 and 2008 are from GOPB forecasts.

**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. Average
1992	\$56.39	8	\$46.96	120.1%
1993	55.31	9	46.51	118.9%
1994	56.30	8	47.20	119.3%
1995	56.70	7	47.17	120.2%
1996	54.66	11	47.07	116.1%
1997	54.13	10	47.21	114.7%
1998	52.54	11	47.37	110.9%
1999	51.56	12	47.09	109.5%
2000	51.59	14	47.97	107.5%
2001	51.17	17	47.78	107.1%
2002	50.61	19	48.16	105.1%
2003	49.42	26	49.62	99.6%
2004	50.38	24	50.57	99.6%
2005	50.06	22	50.27	99.6%

Public Education Current Spending Per \$1,000 Personal Income*				
Year	Utah	Rank	U.S.	Utah Percent of U.S. Average
1992	\$49.21	11	\$42.40	116.1%
1993	48.02	12	41.98	114.4%
1994	48.66	12	42.70	113.9%
1995	47.88	12	42.27	113.3%
1996	47.23	11	42.00	112.4%
1997	45.62	16	41.78	109.2%
1998	44.75	17	41.56	107.7%
1999	44.05	17	41.09	107.2%
2000	43.47	23	41.77	104.1%
2001	42.80	26	41.63	102.8%
2002	42.74	27	42.51	100.6%
2003	41.58	35	43.94	94.6%
2004	42.36	32	44.29	95.6%
2005	41.68	34	43.96	94.8%

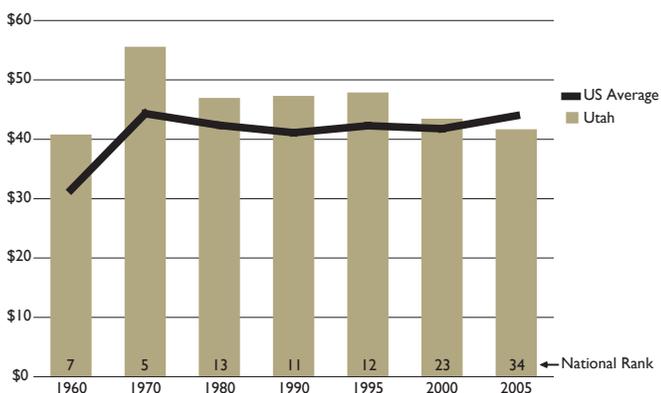
\* Current spending excludes amounts spent on capital construction, interest on debt, adult education, and other non-K-12 programs. The revenue figures include all revenues for public education, including those spent on non-current expenditures.

Sources: Census, BEA. Calculations by Utah Foundation.

The Census report provided the latest figures allowing interstate comparison, but the data are two years old. In the years since 2005, Utah has seen some very large budget surpluses and equally large infusions of funding for public education. Therefore, Utah Foundation has supplemented the Census data series with partial information on education revenues for fiscal years 2006, 2007, and 2008.

Figure 1 shows the result of these calculations. It is not possible to calculate a national rank for the most recent three years, but including the data on income and property taxes shows an increasing trend in funding effort in 2007 and 2008. The data used to create Figure 1 are shown in detail in Figure 5.

**Figure 3: Historical Public Education Current Spending Per \$1,000 Personal Income, Utah and U.S.**



Sources: National Center for Education Statistics (NCES), BEA. Calculations by Utah Foundation.

The historical funding efforts shown in Figure 1 differ from the 2006 report, because this report uses updated personal income data from the Bureau of Economic Analysis, which periodically revises its historical data. The figures from the 2006 report were recalculated with the updated economic information, yielding slightly different rankings and ratios but showing the same general trend.

### WHAT HAPPENED TO UTAH'S EDUCATION PARADOX?

Over the past ten years, Utah Foundation has published a number of reports on public education funding. Several of these reports explained "Utah's education paradox" which was that Utah spent a higher proportion of personal income on K-12 public education than most other states while also spending less per pupil than any other state in the nation. This gap was largely explained by Utah's unique demographic makeup; with very high birth rates and a very young population, there were many school aged children. During the education paradox years (up to the mid-1990s), Utah's funding effort ranked in the top ten nationally, but state demographics caused low per-pupil spending.

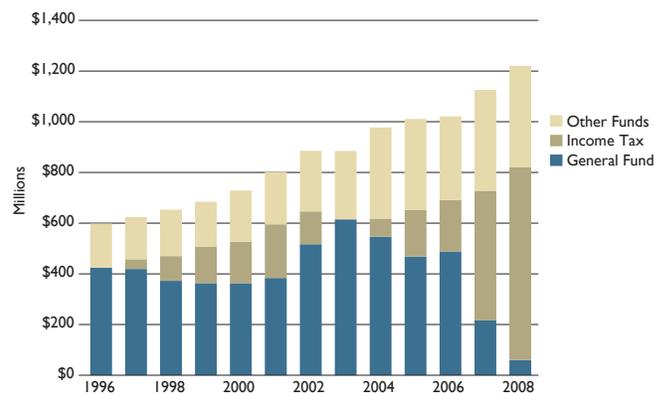
However, by the late 1990s and early 2000s the paradox lessened as the funding effort slowed. The 2006 report showed that Utah's education paradox no longer existed. Utah was still last in the nation for per-pupil spending, but funding effort was no longer remarkable, having fallen to around the national average.

The changes in Utah's education funding effort after 1995 have been extraordinary given Utah's history of education funding. The state's long history of sustained high funding effort is shown in Figure 3; Utah was significantly above the national average in this measure of funding effort as far back as data are available.<sup>4</sup>

### CHANGES IN SPENDING PRIORITIES

The decline in funding effort in the late 1990s coincided with a moderate decline in Utah's overall tax burden. So, in part, Utahns spent less of their incomes on education because they were spending less of their incomes on state and local government overall. But other forces also pushed the education funding effort lower; a 2003 Utah

**Figure 4: Utah Higher Education Funding Sources**



Source: Legislative Fiscal Analyst's Office.

**Figure 5: Growth Trends of Major Revenues for Utah Public Education**

Year	Income Tax			Property Tax - Basic Levy			Other Property Tax			Other Revenues		
	Tax	\$ Change	% Change	Basic Levy	\$ Change	% Change	Property Tax	\$ Change	% Change	Revenues	\$ Change	% Change
1992	\$897,794,600			\$234,467,377			\$214,577,598			\$208,073,425		
1993	942,876,800	\$45,082,200	5.0%	223,880,740	-\$10,586,637	-4.5%	249,032,562	\$34,454,964	16.1%	221,568,898	\$13,495,473	6.5%
1994	1,017,882,200	75,005,400	8.0%	249,097,385	25,216,645	11.3%	266,849,625	17,817,063	7.2%	257,134,790	35,565,892	16.1%
1995	1,107,636,100	89,753,900	8.8%	267,376,093	18,278,708	7.3%	298,278,719	31,429,094	11.8%	279,145,088	22,010,298	8.6%
1996	1,254,761,400	147,125,300	13.3%	198,601,148	-68,774,945	-25.7%	332,435,282	34,156,563	11.5%	248,391,170	-30,753,918	-11.0%
1997	1,421,430,700	166,669,300	13.3%	173,139,225	-25,461,923	-12.8%	361,009,615	28,574,333	8.6%	230,610,460	-17,780,710	-7.2%
1998	1,431,998,300	10,567,600	0.7%	179,999,007	6,859,782	4.0%	401,718,376	40,708,761	11.3%	280,554,317	49,943,857	21.7%
1999	1,487,506,600	55,508,300	3.9%	177,151,434	-2,847,573	-1.6%	432,141,663	30,423,287	7.6%	327,471,303	46,916,986	16.7%
2000	1,505,808,000	18,301,400	1.2%	188,076,348	10,924,914	6.2%	498,200,204	66,058,541	15.3%	353,381,448	25,910,145	7.9%
2001	1,625,507,600	119,699,600	7.9%	204,833,990	16,757,642	8.9%	538,723,635	40,523,431	8.1%	371,839,775	18,458,327	5.2%
2002	1,705,509,700	80,002,100	4.9%	206,375,916	1,541,926	0.8%	574,539,285	35,815,650	6.6%	377,604,099	5,764,324	1.6%
2003	1,648,198,000	-57,311,700	-3.4%	222,423,539	16,047,624	7.8%	618,180,706	43,641,421	7.6%	385,970,755	8,366,656	2.2%
2004	1,678,288,000	30,090,000	1.8%	226,447,025	4,023,486	1.8%	643,339,254	25,158,548	4.1%	444,870,721	58,899,966	15.3%
2005	1,786,390,900	108,102,900	6.4%	236,027,265	9,580,240	4.2%	705,865,776	62,526,522	9.7%	449,127,059	4,256,338	1.0%
2006	1,870,055,100	83,664,200	4.7%	242,913,297	6,886,032	2.9%	758,074,313	52,208,537	7.4%	n/a	n/a	n/a
2007	2,103,268,000	233,212,900	12.5%	249,985,190	7,071,893	2.9%	827,908,573	69,834,260	9.2%	n/a	n/a	n/a
2008	2,493,019,500	389,751,500	18.5%	245,254,790	-4,730,400	-1.9%	n/a	n/a	n/a	n/a	n/a	n/a

Sources:  
 Income tax: Governor's Budget Summaries.  
 Property taxes: Utah State Office of Education.  
 Other Revenues: U.S. Census Bureau.

Foundation report showed that in the late 1990s and early 2000s, the state began to shift spending growth from education and all other spending categories to health and human services, transportation, and law and order.<sup>5</sup> As these categories grew the fastest in the state budget, education funding grew at a slower pace.

This shift of funding effort from public education to other programs was facilitated by the loosening of Utah's earmarking of income taxes for education. Prior to 1996, income taxes (both individual and corporate) were entirely dedicated to funding K-12 public education. In 1996, voters approved a constitutional amendment to allow higher education to also be funded from income tax revenues. Since that change, the Legislature has appropriated an increasing share of income tax to higher education while simultaneously reducing higher education's funding from the state general fund, as shown in Figure 4. This made general fund monies available to spend on other priorities. The net effect of the 1996 constitutional amendment was to allow income tax growth to provide funds for expansion of health, corrections, and transportation programs.

**INCOME TAX EARMARKING WILL MATTER AGAIN**

It is remarkable how fast Utah's income tax has grown in recent years, and Figure 4 hints at some future ramifications of that growth. Note that higher education received a very small amount of funding from the general fund in the current fiscal year, 2008. It is likely that the 2009 budget will see the removal of general fund monies from the higher education budget, and if that continues, the earmarking of income taxes regains some significance in influencing policy choices. As the supplanting of general funds from the higher education budget will no longer be possible, future income tax growth will not provide benefits to general fund programs, and the Legislature will have three primary choices available when income tax revenues grow rapidly: 1) increase K-12 and/or higher education funding, 2) reduce income tax rates and/or the tax base, or 3) increase "rainy day" reserve funds for education purposes. If legislators choose the first option, Utah's education funding effort will likely rise again.

**PER-PUPIL FUNDING COMPARED TO OTHER STATES**

Figure 6 shows state rankings of per-pupil spending from the most recent Census report. Spending \$5,257 per pupil on current operations placed Utah 51<sup>st</sup> in the nation (including the District of Columbia as if it were a state). Utah has held this position in the

**Figure 6: Per-Pupil Spending, 2005 and 2004**

State	2005	Rank	2004	Rank	% Change 2004-2005
<b>United States Avg.</b>	<b>\$8,701</b>		<b>\$8,287</b>		<b>5.0%</b>
New York	14,119	1	12,930	2	9.2%
New Jersey	13,800	2	12,981	1	6.3%
District of Columbia	12,979	3	12,801	3	1.4%
Vermont	11,835	4	11,128	4	6.4%
Connecticut	11,572	5	10,788	5	7.3%
Massachusetts	11,267	6	10,693	6	5.4%
Delaware	10,910	7	10,228	7	6.7%
Alaska	10,830	8	10,114	8	7.1%
Pennsylvania	10,552	9	9,979	9	5.7%
Rhode Island	10,371	10	9,903	10	4.7%
Wyoming	10,255	11	9,363	12	9.5%
Maine	10,106	12	9,534	11	6.0%
Maryland	9,815	13	9,212	14	6.5%
Wisconsin	9,744	14	9,226	13	5.6%
New Hampshire	9,448	15	8,860	17	6.6%
Michigan	9,329	16	9,072	15	2.8%
Ohio	9,260	17	8,963	16	3.3%
West Virginia	9,005	18	8,475	20	6.3%
Hawaii	8,997	19	8,533	19	5.4%
Illinois	8,944	20	8,656	18	3.3%
Virginia	8,891	21	8,225	23	8.1%
Indiana	8,798	22	8,280	22	6.3%
Minnesota	8,662	23	8,359	21	3.6%
Nebraska	8,282	24	8,032	24	3.1%
North Dakota	8,159	25	7,727	28	5.6%
Oregon	8,115	26	7,619	30	6.5%
California	8,067	27	7,748	26	4.1%
Montana	8,058	28	7,763	25	3.8%
Georgia	8,028	29	7,733	27	3.8%
Iowa	7,972	30	7,631	29	4.5%
Colorado	7,730	31	7,412	32	4.3%
Missouri	7,717	32	7,331	33	5.3%
Kansas	7,706	33	7,518	31	2.5%
Louisiana	7,605	34	7,209	36	5.5%
New Mexico	7,580	35	7,331	33	3.4%
Washington	7,560	36	7,243	35	4.4%
South Carolina	7,555	37	7,184	37	5.2%
Arkansas	7,504	38	6,740	42	11.3%
Texas	7,267	39	7,104	38	2.3%
Florida	7,207	40	6,784	41	6.2%
South Dakota	7,197	41	6,949	39	3.6%
North Carolina	7,159	42	6,702	43	6.8%
Kentucky	7,118	43	6,888	40	3.3%
Alabama	7,066	44	6,553	44	7.8%
Tennessee	6,729	45	6,504	45	3.5%
Nevada	6,722	46	6,399	46	5.0%
Oklahoma	6,613	47	6,176	48	7.1%
Mississippi	6,575	48	6,237	47	5.4%
Idaho	6,283	49	6,028	50	4.2%
Arizona	6,261	50	6,036	49	3.7%
Utah	5,257	51	5,008	51	5.0%

Source: Census.

rankings since 1988. In 1987, Utah ranked 50<sup>th</sup>, ahead of Mississippi. Utah ranked 46<sup>th</sup> in 1980, 40<sup>th</sup> in 1970, and 37<sup>th</sup> in 1960.<sup>6</sup>

To rise from last place in the rankings would be fiscally daunting. To be just one rank higher in 2005, Utah would have had to spend about \$500 million more to be ahead of Arizona, which spent \$1,004 per pupil more than Utah. That would have been an increase of 19% in education spending. To rise to the middle of the states, ranking 25th nationally, would have taken more than \$1.4 billion in additional funding in 2005, or a 55% increase.

**ENDNOTES**

<sup>1</sup> U.S. Census Bureau, *Public Education Finances 2005*, April 2007, <<http://ftp2.census.gov/school/05f33pub.pdf>> (29 June 2007).

<sup>2</sup> National Center for Education Statistics, *Digest of Education Statistics*, see Table 164 in the 1995 Digest, <<http://nces.ed.gov/programs/digest/d95/dtab164.asp>> (27 August 2007).

<sup>3</sup> Utah Foundation, *Research Report #674*, “Paradox Lost: Utah’s Education Funding Effort No Longer Surpasses the Nation,” April 2006.

<sup>4</sup> Current spending is used in Figure 3 rather than the revenue series used in Figure 1, because the revenue figures are not available for these older dates. Because it is a different measure, the rankings differ from Figure 1.

<sup>5</sup> Utah Foundation, *Research Report #661*, “Utah State Government Growth: 1991 to 2002,” October 2003. See Figure 3 in that report for details.

<sup>6</sup> National Center for Education Statistics, *Digest of Education Statistics*, see Table 170 in the 2006 Digest, <[http://nces.ed.gov/programs/digest/d06/tables/dt06\\_170.asp](http://nces.ed.gov/programs/digest/d06/tables/dt06_170.asp)> (27 August 2007).

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