



KEY BUDGET DRIVER FRAMEWORK

Maintaining Utah's competitive edge and quality of life requires that we proactively manage and address the multiple demands being placed on limited resources—the taxpayer dollar. Utah's growing and changing population along with new dynamics in our revenue streams places an increased demand on everything from infrastructure to education and the state's natural resources to our correctional system. Reacting to new demands and changes within the economy without a proactive approach to budget design and strategy could potentially leave Utah vulnerable to a diminished future prosperity.

*For Utah, there are six key elements that drive approximately 80 percent of expenditures: Corrections, Employee Compensation and Liabilities, Higher Education, Infrastructure (transportation, buildings, and debt), Medicaid, and Public Education. The ability to develop sound planning strategies and to resolve the challenges within these key areas is fundamental to a thriving economy. These planning strategies, or what we in GOMB refer to as **key budget drivers**, have been developed in consultation with subject-matter experts and key stakeholders.*

PUBLIC EDUCATION

Objective

To develop effective public education policies and funding solutions to ensure:

- an equitable funding structure that supports similar educational opportunities for children across the state;
- significant investments in public education that provide the resources to facilitate Utah's goal to be among the top ten states for student achievement;
- meaningful local control over funding that provides the flexibility to meet varying local needs, including providing sufficient basic school program funds for local school boards to provide professional development tailored to unique local needs and to appropriately address technology use at the local level; and
- local school board accountability allowing constituents and the state to clearly understand the use of state taxpayer dollars, including transparency into costs and student achievement on key metrics.

Guiding Principles

- The public education system should not be micromanaged at the state level. One common form of micromanagement is the establishment of a long list of separate funding programs that become diluted when distributed statewide and may not take into account local school needs. In addition, each program added at the state level carries additional administrative burden with specific requirements, tracking, and processes. Rather than micromanaging through a long list of programs, the state should provide flexible resources in concert with a robust accountability system and allow local school boards to prioritize expenditures based on local needs and expected outcomes.
- A robust accountability structure should accompany the emphasis on local control. To ensure the \$3 billion in state tax revenues (estimated \$5.3 billion in total revenues) allocated to public education translates to positive outcomes, student achievement should be reported to state policymakers and the public through tools such as the new PACE School Report Card (samples follow). In addition, further efforts should be undertaken to promote added visibility into the relationship between costs and outcomes.

- Technology use within public education is a hot topic. The public education system includes three types of technology. First, a statewide technology infrastructure provided by the Utah Education Network (UEN). The state has played a major role in this area and should continue to do so. Second, local technology infrastructure that should be funded primarily through locally controlled sources such as Minimum School Program allocations or local property taxes. However, the state may partially equalize major disparities in property tax resources for small school districts and when school districts make a significant property tax effort. Third, specific devices, software, or other student technologies should be controlled at the local level and paid for with locally-controlled resources such as general purpose Minimum School Program allocations or local property taxes. Local school boards should prioritize student technology purchases against other competing local needs.

Background

Enrollment. The number of children in Utah’s public schools continues to grow, albeit at a slower pace than in previous years. Utah’s student population is estimated to reach about 630,000 students in FY 2016, an increase of 7,951 students or 1.3%.

After a decade of relatively flat, and even declining, enrollment during the late 1990s and early 2000s, a baby boomer “echo-echo wave” began hitting the public education system in 2004. As illustrated in Figures 1 and 2, enrollment has increased significantly over the past decade.

Although enrollment growth is anticipated to continue for the foreseeable future, growth is expected to continue at a slower pace.

Funding new enrollment growth is a major budget driver for the state. Annual enrollment growth cost increases have ranged between \$50 million and \$70 million in recent years, which exceeds the entire budget of many state agencies. The Governor’s budget fully funds enrollment growth. In addition, the budget adds four new programs to the enrollment growth calculation and assumes a one-year extension of an expiring charter school average daily membership (ADM) provision—a permanent solution should be studied over the coming year in context of a comprehensive school funding review. These enrollment growth investments are estimated at \$58.1 million (\$54.7 million ongoing and \$3.4 million one-time).

Figure 1 – Public Education Total Enrollment

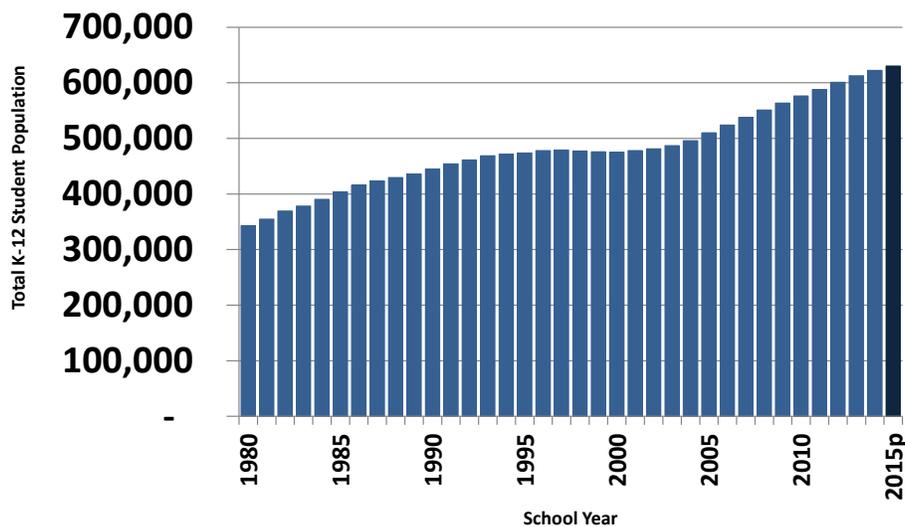
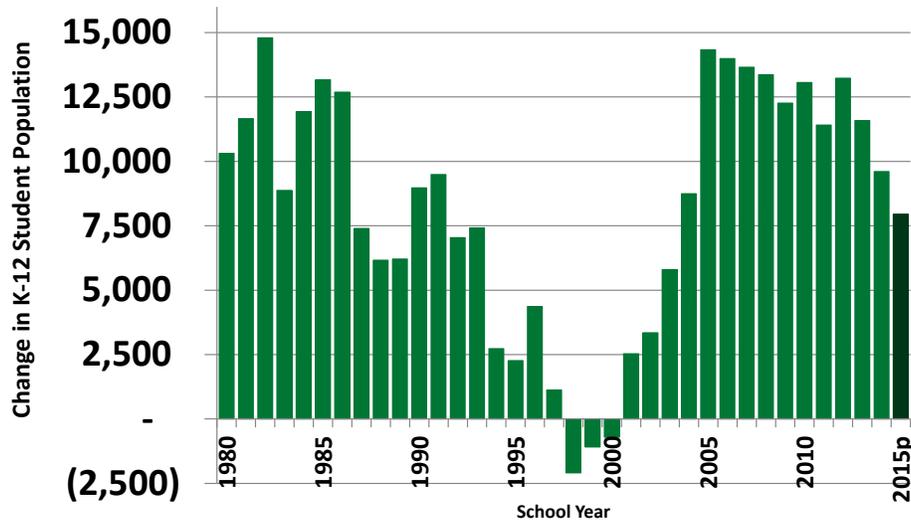


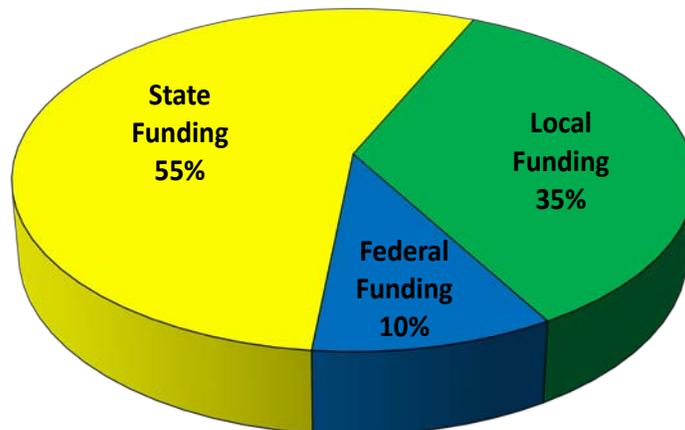
Figure 2 – Public Education Enrollment Growth



Funding Overview. Utah’s public education system has a shared state and local governance and funding structure. The legislature and governor exercise oversight of the system by allocating state funds for public education; establishing tax policies that provide the state portion of public education revenues; and by setting broad parameters within which the system operates. The State Board of Education exercises general control and supervision of public education. School district boards impose local property taxes and local school district and charter school boards oversee the delivery of education services.

Total Funding. When total funding sources (state, local, and federal) for all uses are considered, it is estimated that funding for Utah’s public education system will total approximately \$5.3 billion in FY 2016 or about \$8,400 per student. This includes \$3 billion in state funds (generally income tax), \$1.8 billion in local funds (generally property tax), and nearly \$500 million in federal funds. Based on these estimates, state funds constitute approximately 55% of total school funding (the exact percentage will vary slightly depending on actual local funding decisions).

Figure 3 – State, Local, and Federal Funding



What is the Minimum School Program?

Of the estimated \$5.3 billion total in public education funding for FY 2016, approximately \$3.6 billion (nearly 70%) falls within the Minimum School Program. The Minimum School Program is comprised of the following three major sub-programs: (1) the Basic Program, (2) the Voted and Board Levy Program, and (3) the Related-to-Basic Programs.

Of the \$3.6 billion in Minimum School Program funding, about \$670 million comes from a portion of local school property taxes with the remaining \$2.95 billion allocated from state funds.

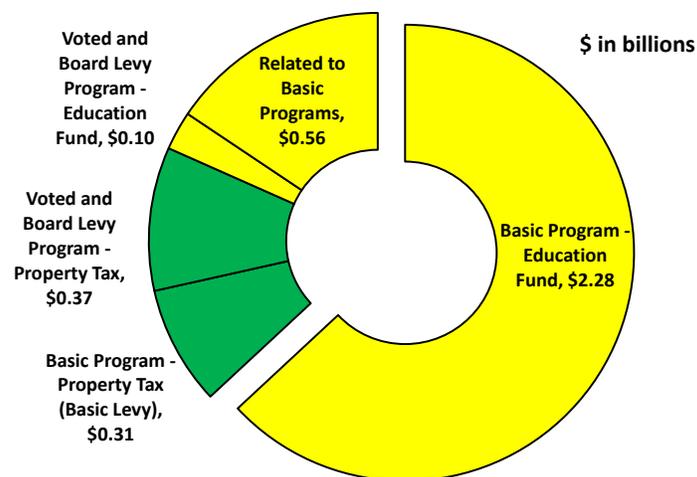
Basic School Program. The Basic School Program is the largest subprogram within the Minimum School Program and is funded in the Governor’s budget at \$2.6 billion. These funds are spent by local school boards on local priorities. The Basic School Program comprises about half of all school funding and is equalized on both the spending and the revenue side. This means that similarly situated students and taxpayers are treated similarly throughout the state—not that every student is funded at the same level.

On the revenue side, Utah’s statewide income tax system is the main source of state funds for the Minimum School Program. In addition, a uniform property tax rate (the basic levy) is imposed statewide by school districts.

On the spending side, school districts and charter schools receive allocations based on the number of weighted pupil units (WPU) generated within the school district or charter school multiplied by the value of the WPU. A school district or charter school’s WPU amount is generally based on the number of students and the characteristics of those students. For example, a student in grades 1-12 in a school district typically generates 1.0 WPU. A kindergarten student will generate 0.55 of a WPU. Charter school WPUs vary by grade range. Additional WPU numbers are generated based on student or other characteristics such as special education students, school district size, or the existence of small rural schools within the district.

As a result of enrollment growth, the Governor’s budget funds an increase in the number of WPUs. In addition, the budget includes a 6.25% increase in WPU value, which would increase locally controlled school funding by about \$161 million. The 6.25% increase represents the largest net increase in the WPU over the last 25 years.

Figure 4 – Minimum School Program Funds



Voted and Board Levy Program: A Partially Equalized Program. Under the voted and board levy program, the state provides about \$100 million to school districts with a comparatively low property tax base per student and is based on the district's tax effort as measured by the local property tax rate. About \$370 million in property taxes are imposed under the voted and board local levy program and are included in the state budget; however, school districts may also impose taxes above the amount included for purposes of the state partial equalization program.

Related to Basic Program. This subprogram is funded with state revenues generally targeted for a specific purpose. Examples include educator salary adjustments, pupil transportation, charter school local property tax replacement funding, and at-risk student funding.

State Funding of Public Education. Public education is by far Utah's largest state-funded program with over \$3 billion recommended in FY 2016. This equals almost half of the state's combined Education Fund / General Fund budget. The Minimum School Program (\$3.6 billion) provides a substantially equalized funding structure through the Basic School Program (\$2.3 billion state / \$300 million local) and the partially equalized Voted and Board Levy Guarantee Program (\$100 million state / \$370 million local). In addition, the Governor's budget recommends over \$560 million through the Related to Basic School Program for specific items such as transportation, charter school local property tax replacement, and educator salary adjustments. In addition to Minimum School Program funding, the Governor's budget recommends an allocation of \$70 million through the School Building Program.

With such a large public education budget, changes that may appear small have major budget implications. For example, it costs \$58 million to fund the anticipated 1.3% growth in the projected number of new children (8,000) in the public education system.

Local Funding. School districts are authorized to impose five discretionary property tax levies, subject to certain limits, to provide additional local education funding. In other words, local school boards are responsible for imposing taxes if they want to provide services above the levels possible with state funding. Local school boards also have political accountability to local voters for use of local funds. Charter schools cannot impose property taxes but do receive allocations based on the amount of property tax imposed by school districts.

As of 2014, school districts budgeted about \$1.3 billion in ad valorem property tax, consisting of about \$300 million in the mandatory basic levy and about \$1 billion in discretionary local taxes. Approximately \$245 million in local discretionary property tax authority remains available under existing statutory property tax rate caps (\$105 million under the board levy and \$140 million under the voted levy). In addition, nearly \$400 million is available statewide under the capital levy, which can be used for items such as buildings and technology infrastructure.

While unused property tax capacity varies by school district, all districts have unused property tax authority through the board local or voted local levy for operations; the vast majority of districts have unused authority under both levies; and all districts but one have unused authority under the capital levy. Although charter schools cannot impose property taxes, the Charter School Local Replacement Program provides charter schools with an amount equal to the statewide average of per-pupil property tax revenues.

Unlike Utah's substantially equalized funding for operations, capital expenses are generally funded at the local level with property taxes or other locally controlled funds. In FY 2015, only about \$15 million is provided to equalize funding for capital infrastructure. For FY 2016, the Governor recommends a significant increase to this program (\$20 million ongoing, \$36 million one-time) for local school boards

to prioritize capital infrastructure needs such as buildings and technology infrastructure. In addition, increases are recommended to minimum allocations for small school districts under the program.

Proposed Solutions

- Work in concert with the State Board of Education and stakeholders such as Prosperity 2020 and Education First to establish a 10-year education plan.
- Explore ways to provide policymakers and the public with more visibility into education by making educational outcomes and costs more simple, transparent, and easily understood.
- Over the next year, work with the State Board of Education and key stakeholders to conduct a comprehensive review of the state's education funding system to explore opportunities for simplifying and streamlining funding to enhance local control while maintaining appropriate funding equity, including a review of the ability of the current funding structure to deal with changing education delivery structures, demographics, and student needs.
- Provide significant flexible general purpose funding through the Basic Program and its weighted pupil unit (WPU) allocation methodology, allowing local education agencies to prioritize and fund competing local needs including professional development and student technology purchases.
- Resist pressures for the state to assume what should be local roles in governance or funding, such as the purchase and use of student technology and other local needs.
- Assist districts with capital needs, including buildings and technology infrastructure, by providing increased funding through the Capital Outlay Foundation Program, which provides additional state resources for school districts with a comparatively low property tax base per student and includes a significant emphasis on local property tax effort
- Establish methodologies for sharing best practices across the state, while allowing local decision-making.
- Provide funding for school evaluation support to assist when expected outcomes are not being met.
- To improve the state's air quality, provide funding to replace old polluting school buses with new buses using clean fuel technologies.
- GOMB was charged to administer HB 96, which creates funding to support early intervention programs for targeted and at risk populations. This program is based on a new and innovative funding model which leverages private investments that are repaid based on measurable outcomes. If successful, captured savings and benefits could extend to reach additional students and/or serve as a model for the future.

Improving Accountability: PACE Report Cards

The new PACE School Report Cards and PACE Progress Reports are the beginning of an ongoing effort to improve accountability reporting in public education. The report cards provide a variety of education outcome measures along with important contextual information in a comprehensive, transparent, yet easy-to-understand format. They are intended to engage parents, administrators, policymakers and the general public in a constructive and productive way.

The public education report cards incorporate metrics from the Governor's "*PACE 66% by 2020*" road map to success, along with student performance and growth data currently contained in State Board and State Office of Education reports.

The new PACE School Report Cards were originally initiated by the Governor, but by working collaboratively with the State Office of Education, these new report cards meet the reporting requirements of the State Board of Education and State Office of Education. In September 2014, the State Board voted to adopt the new PACE School Report Cards to replace the previous UCAS accountability system.

Efforts were made during the past legislative session to reach out to members of the Legislature in an attempt to design the PACE Report Card while also meeting the Legislature's school grading system objectives. However, the timing of the session became an issue, preventing a more thorough discussion of the new report cards. So, just as last year, there will be two separate accountability reports issued for K-12 public schools.