

HIGHER EDUCATION FUNDING SWAP FROM GENERAL FUND TO EDUCATION FUND EXPLAINED

1.

Constitutional earmarking of income tax

- Between the late 1940s and 1996, the Utah Constitution earmarked 100 percent of income taxes for K-12 education. In 1996, voters amended the Utah Constitution to allow income taxes to be used for K-12 and higher education. This constitutional change increased state budget flexibility.
- With the constitutional change, higher education can now be funded with both income tax and sales tax.

2.

Sales tax is the main General Fund revenue source

- Sales tax is the primary revenue source for the General Fund (80 percent of General Fund revenues).
- The General Fund pays for state government services besides education, including public safety, courts, social services, elections, air quality, and transportation.

3.

Higher education funding has been shifted from General Fund to Education Fund since 1996. When fully shifted, state budget flexibility will be reduced.

- Since 1996, most higher education funding has been shifted from the General Fund to the Education Fund because sales tax growth has been moderate while income tax growth has been strong.
- When higher education is fully funded from the Education Fund, this will reduce the state's budget flexibility, forcing programs funded from the General Fund and sales tax earmarks to rely on sales tax growth (rather than shifting income tax growth). This reduced flexibility means significant restructuring of the state's fiscal system will occur one way or another. Potential options include sales tax base broadening, sales tax rate increases, elimination of the constitutional earmarking of income taxes for education, or significant changes in state spending in areas funded with sales tax (transportation, public safety, air quality, and social services). Ideally, the sales tax system should be modernized now (when the state is not in a crisis) to avoid dramatic negative changes in the future.

4.

What is the exact timing of higher education funding fully shifting to the Education Fund?

- The precise timing is uncertain because it depends on the annual budget decisions the Legislature makes, but it is likely to occur in the very near future. Given historical trends, the state could hit this fiscal cliff within two to five years. Economic changes (such as the continued shift away from goods in favor of services, growth in the sharing economy, including for transportation with self-driving cars, etc.) could accelerate this timing. But even though the exact timing is uncertain, if historical trends continue, it really is a question of if, not when, higher education will be 100 percent funded from the Education Fund.

5.

Large increases in estimated revenues are primarily from income taxes

- The current revenue estimates for the upcoming session are as follows (note, revenue estimates will be revised in late February):
 - General Fund: \$66M one-time, \$187M ongoing
 - Education Fund: \$580M one-time, \$488M ongoing
 - Total: \$646M one-time, \$675M ongoing
- In these revenue estimates, growth in projected Education Fund (primarily income tax) revenues is much stronger than growth in General Fund (primarily sales tax) revenues.
- One-time revenues are revenues not anticipated to continue in future years, and are recommended to be spent on one-time purposes, such as buildings. Funding ongoing expenses with one-time revenues creates a structural imbalance.
- Ongoing revenues are revenues that are anticipated to continue in future years, and can be budgeted for ongoing expenses, such as personnel.