Utah FOUNDATION Research Report

Report Number 682, January 2008

EQUALIZING SCHOOL BUILDING FUNDS

HIGHLIGHTS

- In 2007, school districts spent $420 million on school facility projects. This is an increase of 63% since 2000, when outlays were $264 million.
- Projected enrollment growth of 155,824 students over the next 10 years, increased building costs, and school district splits threaten the ability of some districts to pay for school buildings.
- Students in wealthier districts have up to seven times more funding for school facilities than students in poorer districts.
- Taxpayers in poorer school districts pay property taxes at rates up to five times greater than those in wealthier districts.
- Thirty-seven states have faced lawsuits based on the adequacy and equity of their methods for funding school districts' facilities.
- Adequately funding the state's Capital Outlay Foundation and Enrollment Growth Programs could alleviate some of the inequities in school facilities funding between districts and some of the burden taxpayers in poorer districts bear.
- Options for making the Capital Outlay Foundation Program more equitable and adequate could cost from $67 million to $178 million. These options are modeled to show their potential impacts on adequacy and equity.

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As Utahns brace for a massive influx of students into public schools over the next decade, concerns have been raised about where all the incoming students will be taught. In addition, the pending split of the Jordan School District has highlighted several issues as they relate to financing the building, maintaining, and renovating of Utah's school facilities. At stake are three central issues: capital financing issues, litigation concerns, and dividing the burden among taxpayers for financing school capital facilities.

CAPITAL FINANCE ISSUES

In the 2007 fiscal year, school districts spent about $420 million on capital outlays for land and buildings, including remodels or additions to existing buildings. These outlays were financed partly by cash and partly through debt issuance. Figure 1 shows amounts spent by each district on land and building-related capital outlays from 2000 to 2007, adjusted for inflation to 2007 dollars.[1] The data show a clear increase in outlays during this period, attributable to a number of factors, including increased building costs and the need to provide more or larger facilities to accommodate student population growth.

The growing student population and rising building costs have raised concerns about the ability of individual school districts to finance adequate capital outlays. Districts essentially have two ways of paying for capital expenses. The first is through paying cash with revenues received from local property taxes. The second is through bonding and then paying debt service, which includes interest, on the bonds. If districts are unable to raise the necessary revenues, the adequacy of the facilities they provide to students is in jeopardy.

In addition to concerns about adequacy, capital finance issues highlight the inequities in revenues that different districts have available to build schools for their students. Some districts have greater property wealth than others and enjoy higher revenues at lower tax rates. Other districts impose much higher tax rates to produce revenues that are much smaller than their wealthier peers. The result is that the wealthiest districts have up to seven times more capital revenue per student and property tax rates up to five times smaller than the poorest districts.

Figure 1: Capital Outlay for School Buildings and Land, Including Remodels, 2000 to 2007
Adjusted for Inflation (2007 Dollars)

District	2000	2001	2002	2003	2004	2005	2006	2007	8-year Average Per ADM
Alpine	$45,263,411	$21,236,637	$39,395,146	$83,201,190	$75,345,326	$32,098,284	$40,934,051	$17,585,489	$893
Beaver	2,682,045	9,189,327	798,335	568,461	76,689	177,268	17,154	55,496	1,194
Box Elder	617,974	1,250,091	1,521,519	418,010	635,234	981,211	803,021	236,890	76
Cache	10,114,538	2,257,870	661,565	507,195	1,132,684	13,318,181	9,913,746	5,108,658	406
Carbon	288,415	972,373	8,613,403	3,832,765	978,645	2,140,005	1,390,503	5,042,889	789
Daggett	10,764	72,639	77,928	41,906	45,471	34,877	35,932	56,141	334
Davis	20,177,709	5,893,197	26,449,907	59,744,216	54,692,472	36,004,791	32,136,854	57,027,528	610
Duchesne	160,285	572,834	829,841	5,308,593	3,695,096	4,522,454	9,167,058	6,893,725	993
Emery	375,012	286,415	750,376	348,763	855,214	42,812	372,856	2,656,340	298
Garfield	313,772	598,132	4,167,946	420,473	204,263	336,188	186,414	372,254	810
Grand	266,639	462,622	533,504	110,510	299,865	436,892	146,390	103,480	200
Granite	31,869,205	46,847,634	44,948,193	27,601,669	38,331,391	18,418,845	25,458,032	21,570,506	467
Iron	26,331,961	77,474	539,929	81,883	894,611	1,456,295	18,559,411	6,823,204	901
Jordan	34,879,537	28,243,596	38,509,335	48,328,853	50,209,173	70,666,281	46,623,921	56,116,608	623
Juab	200,246	64,597	84,216	1,322,751	350,640	1,170,372	202,410	2,208,783	357
Kane	5,301,458	5,579,581	1,895,007	135,054	0	35,294	738	238,374	1,204
Logan	11,131,359	6,875,587	1,687,381	2,734,944	8,671,281	3,881,996	904,154	407,840	785
Millard	1,056,078	909,552	358,862	3,637,213	1,990,834	969,477	751,515	1,121,573	437
Morgan	163,268	3,598,286	558,663	437,733	359,629	142,094	99,532	4,255,048	591
Murray	269,953	9,168,253	15,847,244	13,505,689	3,261,894	1,230,965	1,664,485	1,001,322	901
Nebo	7,196,813	25,015,405	20,718,272	24,752,669	9,610,616	30,493,262	48,794,008	49,416,964	1,138
North Sanpete	673,322	987,696	376,323	398,936	566,985	962,883	452,770	387,568	253
North Summit	84,691	1,698,314	128,077	198,743	331,207	6,753,057	5,110,585	324,339	1,862
Ogden	108,367	69,075	650,899	124,659	825,100	2,551,179	1,345,365	14,049,523	202
Park City	10,611,744	12,279,958	6,787,319	3,801,337	13,510,945	5,237,268	9,713,273	11,626,115	2,274
Piute	201,506	65,379	19,441	22,803	50,180	0	46,123	83,367	186
Provo	3,194,432	5,264,249	7,269,902	2,139,123	86,976	2,132,467	0	14,810,111	332
Rich	190,879	191,229	170,613	122,020	61,129	3,992,950	214,538	127,516	1,469
Salt Lake	3,118,609	2,818,409	42,023,957	22,670,153	39,665,207	38,690,919	34,656,579	20,589,561	1,075
San Juan	1,960,399	1,303,769	484,354	1,026,438	743,082	828,026	1,539,090	762,263	357
Sevier	1,193,300	3,459,082	3,098,811	2,530,147	5,708,430	1,550,020	2,329,370	2,493,465	643
South Sanpete	4,167,880	1,052,109	352,948	1,410,097	368,168	294,419	235,889	1,735,176	433
South Summit	4,038,401	1,048,374	498,093	8,369,201	3,369,563	457,835	270,275	273,086	1,763
Tintic	35,271	127,352	84,119	86,312	115,375	49,330	0	38,285	250
Tooele	1,713,239	6,887,770	35,045,762	10,437,253	11,444,330	18,151,988	10,449,746	11,442,220	1,284
Uintah	67,380	648,374	58,467	1,660,388	7,997,290	688,099	2,492,711	24,635,810	850
Wasatch	10,638,057	2,268,045	1,887,642	1,933,819	2,537,587	1,662,432	10,473,727	9,183,934	1,266
Washington	15,082,232	17,612,693	19,035,525	13,457,918	31,455,787	29,329,975	41,601,710	51,430,774	1,292
Wayne	3,237,916	373,183	121,554	95,584	9,381	0	0	0	855
Weber	4,856,235	22,558,579	12,730,090	20,062,224	13,933,691	7,771,593	5,021,010	17,426,325	462
Total	**$263,844,302**	**$249,885,742**	**$339,770,468**	**$367,587,691**	**$384,421,443**	**$339,662,285**	**$364,114,945**	**$419,718,550**	**$648**

Sources: Utah Foundation Review of Annual Financial Reports published by Utah State Office of Education (USOE); CPI data from Bureau of Labor Statistics (BLS).

Figure 1 also shows an eight-year average of each district's capital outlays per student, with students measured in average daily membership (ADM). The table shows significant differences in per-pupil spending on facilities, some of which is caused by different local needs, local preferences, and local financial capacities.

LITIGATION ISSUES

Nationwide, there has been a growing trend of litigation against states based on the inequity and inadequacy of school facilities. After decades of lawsuits focused on the operational costs of schools, this second wave of equity litigation has increasingly included issues of disparities in school facilities and how those facilities provide educational advantages or disadvantages to students. This has directly caused a number of states to legislate different forms of and programs for equalizing capital project funding statewide. As a result, the number of states with capital equalization programs has been growing nationwide. It is also possible that policymakers in states whose programs were not the direct result of lawsuits nonetheless have been influenced by judicial decisions in other states.

The National Access Network, an organization that tracks school financing, has compiled a list of school funding adequacy legal cases that include concerns about inadequate or inequitable school facilities. Figure 2 shows those states that have been involved this type of litigation.

From the National Access Network:

"Close to twenty states have revised school facilities funding in response to lawsuits, and courts in Alaska, Arkansas, New Jersey, Ohio, Wyoming, and elsewhere have expressly determined that adequate facilities are an important component of the state's constitutional responsibility. Under court order, a number of these states have dramatically increased their support for school construction and renovation."

Some states, like New Mexico, Arizona, and Idaho, have faced lawsuits that explicitly challenged the constitutionality of the state's method of facilities funding. Plaintiffs have prevailed in the majority of these cases, but legislative responses to the court orders have been mixed.[2]

As mentioned above, most of these cases have been brought on the basis of the constitutional obligation all 50 states have to provide a state public education system. Concerning educational finance overall, which includes operational finance, the past 30 years have seen 45 of the 50 states involved in litigation. Furthermore, states are losing two-thirds of such cases and "No Child Left Behind" is not making the states' case any easier.[3]

Previously, adequacy and equity-based litigation has primarily been brought in the case of school operations and maintenance funding. However, the trend towards also using capital funding inequity and inadequacy as the bases for lawsuits has been increasing.

Even in states where legislation has been enacted and programs or boards have been created to equalize capital funding, lawsuits have been brought when the outcome of such legislation or programs has been inequitable or has not resulted in adequate school facilities.

The Office of Legislative Research and General Counsel recently conducted a survey of several, mostly western, states that have instituted state school building authorities. These include Arizona, California, New Mexico, Ohio, Washington and Wyoming.[4]

While Washington and California have both had building authorities for about 50 years, the other states surveyed had more recently implemented their programs. New Mexico has had a program

since the 1980s. Arizona and Ohio instituted their building authorities about ten years ago and Wyoming created its authority in 2003.

The states were asked if they had created their building boards in response to litigation. Those who responded in the affirmative included Arizona, Ohio, and Wyoming, all of whom created their building authorities within the past ten years.

This raises the question of why Utah has not been involved in education finance litigation. While it is difficult to be sure, there are a few likely reasons. The first is that, since 1947, when Utah established the Minimum School Program to equalize operational funding, Utah has enjoyed a relatively high level of equity in education financing on the operational side. While capital funding has not been equalized, the equality of education operations funding has perhaps offset some of the risk of litigation.

Another reason for the lack of litigation may be the wording of Article X, Section 1 of the Utah State Constitution, which describes the state's role in education.

> Article X, Section 1. [Free nonsectarian schools.]
>
> The Legislature shall provide for the establishment and maintenance of the state's education systems including: (a) a public education system, which shall be open to all children of the state; and (b) a higher education system. Both systems shall be free from sectarian control.

While Utah's state constitution declares that the state shall provide for the establishment and maintenance of the state's education systems, it does not specify that those systems be either adequate or equitable. Some other states' constitutions specifically use the word "adequate" to describe the education systems the state is obligated to provide. The lack of this or other modifiers could offer one reason for the state not being sued.

Having said that, it is possible that litigation would be brought on the grounds that adequacy is implied in the state's mandate to provide educational systems. Furthermore, equality has been well-established as a criterion for judging state education. Either of these or other reasons could be used in the future as grounds for litigation.

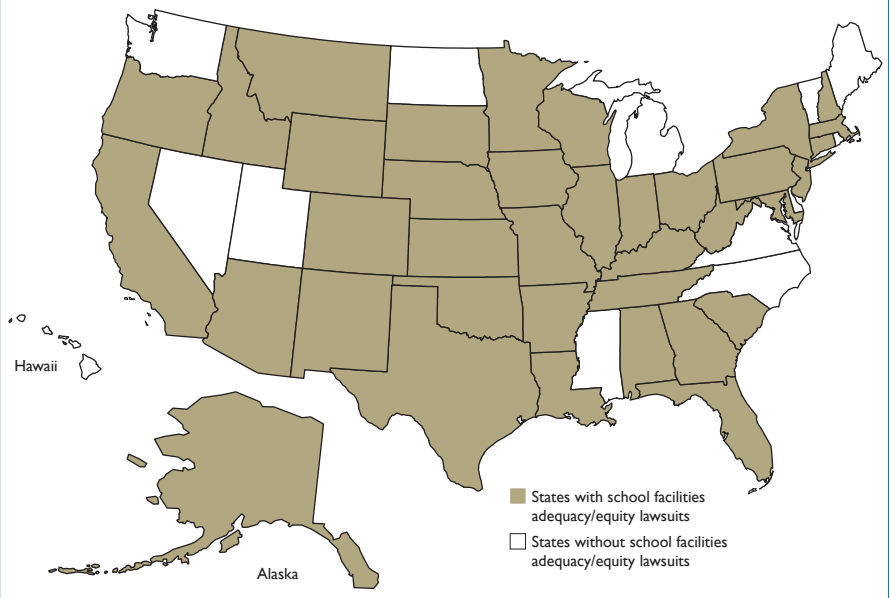
Concerns about capital facility financing have become more acute in Utah in recent years. While Utah's population has almost always been growing, the rate of growth has been very high during the past several years and is projected to continue at a rapid pace. The splitting of school districts, where dividing resources has been a concern, is also a more recent concern. The same is true of the increasing tax burdens borne by Utah taxpayers in high-growth and/or low taxable-value districts.

TAX BURDEN ISSUES

The primary means of financing school capital projects is the property tax. A main concern about Utah's current method of financing educational facilities is the greatly disparate property tax burdens that are borne by Utah taxpayers residing in different school districts. In those districts where taxable values are high and growth is low, the burdens tend to be lighter. In certain high-growth and low taxable-value districts, the property tax burden is almost five times greater.[5]

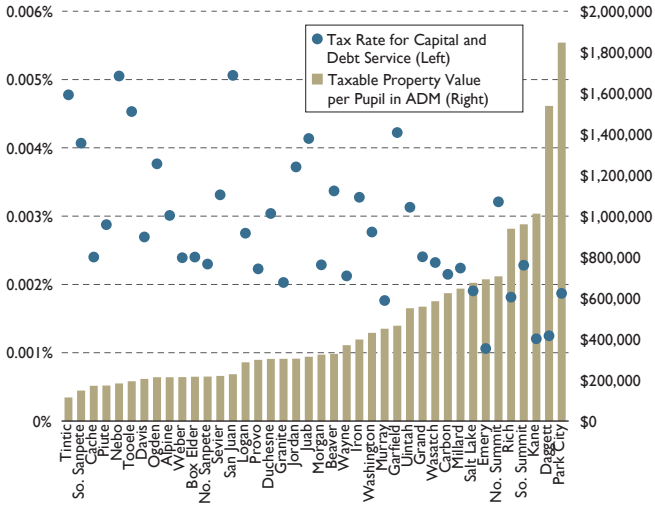
Figure 3 shows the assessed property value per pupil in each district compared to property tax rates levied for school facilities purposes. Note that the districts with the highest property values per pupil also generally have the lowest tax rates. Because the financial capacity or tax base of Utah's school districts varies so much, taxpayers in low property-value districts can have much higher tax burdens and receive lower quality facilities than those in high property-value districts. Not only do the buildings look different, but most importantly, they also present differing educational opportunities to students, with the more

Figure 2: School Facilities Adequacy and Equity Cases As of December 2007



Source: The National Access Network.

Figure 3: School District Tax Rates for Capital Facilities and Debt Service Compared to Per-Pupil Property Values, 2006-07



Note: Pupils are counted in Average Daily Membership (ADM).
Source: Office of Legislative Research and General Counsel.

expensive buildings providing better science labs, technology, physical education facilities, libraries, and other educational enhancements.

CAUSES OF THE CAPITAL FACILITY FUNDING PROBLEM

When considering any policies or programs for addressing capital funding, litigation, and tax burden issues, it is important to look at the fundamental causes of these problems. Clearly understanding the problems and their causes is critical to formulating appropriate policy responses.

The causes of the capital finance, litigation, and tax burden problems can be divided into two basic categories: external, or temporary issues, and internal, or systemic issues. Both issues have multiple, underlying causes.

External Issues

Student Population Growth

The main, external factor affecting capital funding needs in Utah is the growth in the student population. This is not a systemic problem, but rather a problem imposed on the current system, which might not be fully equipped to finance rapid student population growth and its inherent capital needs.

Furthermore, projections indicate that growth in the K-12 student population will continue at a high rate. Over the next ten years, enrollment in Utah public schools is projected to grow by 155,824 students.[6] This growth in population points to a great need in the near future for schools in which to educate all of these students. This is likely to impose continuing strain on the school capital finance system.

Compounding this problem is a sharp increase in construction costs. For example, Davis School District recently built a high school that will house 2,000 students. The cost for that high school, when it was paid for, was $40 million. With increases in construction costs over the past few years, Davis School District estimates that the same high school would cost $70 million today.

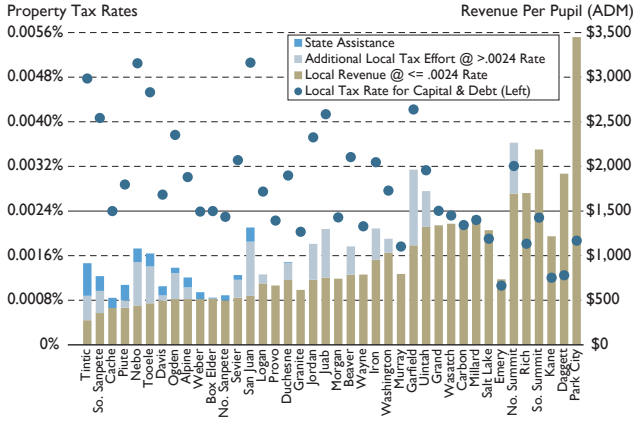
In addition, in Alpine School District, the cost of building a new high school in Saratoga Springs increased by $60.3 million over original estimates, due in part to an increase in the per square foot cost from $151 to $189 and an increase in the need for additional square footage. To avoid major changes in the plans for the school or funding for other schools, the Capital Outlay tax levy was increased from 0.000019% to 0.000360 % for the 2007-2008 fiscal year.[7]

These cost increases intensify the problems faced by low-wealth districts which levy higher tax rates and receive lower per pupil revenues than high-wealth districts. The increased cost of construction makes facilities for low-wealth districts even more difficult to afford and increases the burdens on their taxpayers.

District Splits

Another external factor that has given rise to concerns about capital facilities finance is the pending split of the Jordan School District. In November 2007, voters approved a split, which is now working its way through the regulatory and legal process. The split of the district will entail dividing the resources and facilities that the district had in common. This division of assets is creating a need for funds to replace lost resources and facilities that were once shared, particularly in the west side of the district, which is experiencing more growth than the east side.

Figure 4: Components of District Per-Pupil Revenues for Capital Projects and Debt Service Compared to Tax Rates, 2006-07



Notes: Tax rates are for capital facilities and debt service. Local revenue @ <= .0024 measures how much revenue each district receives at the .0024% rate or at its actual rate if lower than .0024%. Additional local tax effort shows how much incremental revenue is raised by rates above the .0024% rate. Districts are sorted by their per-pupil property values as in Figure 3.
Source: Utah Foundation calculations from USOE data.

This pending need for funds could lead to inequity in capital facilities for students and an increase in the tax burden borne by taxpayers who live in the high-growth west-side district. Furthermore, this district split has led to ongoing concerns about how future district splits will affect available resources and facilities and their associated funding needs.

Systemic Issues

The internal, or systemic, causes of the problems with financing capital projects in Utah include districts having inadequate funding for school buildings, renovations or rebuilds, and having an inequitable distribution of the tax burden for financing these capital outlays. These problems are systemic and will not change with time unless changes in policy are made.

Inequities in District Resources

The primary tool that districts have to finance capital expenditures is the property tax, either through levies for pay-as-you-go capital spending or through levies for payments on bonds that are approved by voters. Because the revenue system is based on the value of the property in a district, districts with higher property values have an advantage over districts with lower property values. Districts with greater property values have a greater ability to collect capital funds and therefore have more building funds per student.

Earlier, Figure 3 showed the differences among districts in property tax base per student. Figure 4 shows property tax revenues per student in the 2006-07 fiscal year. These charts illustrate the great disparity in building funds per student available to Utah school districts. Figure 4 also highlights the portions of each district's per-student revenue derived from the standard .0024% tax rate that qualifies it for full state facilities aid and the portions derived from additional local tax effort and state aid. Note that some districts levy less than the .0024% tax rate and that portion of the graph columns reflects their actual revenues at their actual tax rates.

Some districts have high property values per student but have very few students. Daggett, Rich, and North Summit Districts each have high property values (see Figure 3) but have fewer than 1,000 students.

These districts also have smaller class sizes and therefore do not have the economies of scale that bring down the capital costs per student for other, more populated, districts. Because of the widely varying sizes of Utah school districts, it is difficult to determine what level of capital facilities spending per student would produce adequate facilities.

The disparate property values in Utah school districts also affect school bonding capacity. Districts are limited to bonding up to four percent of their taxable value. So, districts with higher taxable property values per student are also able to bond for more funds to finance schools compared to their lower taxable-value peers.

Inequities in Taxpayer Burdens

As mentioned earlier, one of the issues created by the current school capital finance system is an inequity in the burden taxpayers in different districts bear for funding school building projects. These tax burdens are closely linked with the disparate capital revenues schools receive. Low taxable-value districts often impose higher tax rates than high taxable-value districts in order to collect the revenues necessary to pay for an adequate number and quality of facilities.

The apparent tax burden disparities are mostly due to the fact that high-growth, low taxable-value districts have raised property taxes to finance capital facilities and pay debt service on school building bonds. Even with the revenues collected from higher tax rates, lower taxable-wealth districts are not always able to build schools of the same quality as higher taxable-wealth districts.

CRITERIA FOR CRAFTING SOLUTIONS

Each of the problem causes described above call for unique policy objectives in crafting policy solutions. In order to address all of these problems, policymakers should consider the following objectives as policy solutions are discussed:

1. Ensure that growing districts have adequate funds to build new schools to house additional students, in step with how much the student population increases in those districts.
2. Ameliorate the negative effects of splits on newly-formed districts that lose substantial resources.
3. Ensure adequate funding for renovations or rebuilds and maintenance across districts as well as for new facilities.
4. Ease the burdens on taxpayers in lower taxable-value districts so that their property tax rates are more equivalent to other districts with higher taxable values.

These objectives are primarily addressed at solving two major concerns: equity and adequacy. Given the problems and causes involved in school capital finance, as this report has outlined them, a discussion of equity and adequacy issues is warranted.

Equity

In the context of school capital finance, equity can be viewed in terms of *equity to students* and *equity to taxpayers*.

Equity to Students

This is the idea that all students should have access to comparable educational facilities. This is essentially a question of the amount of funding available to school districts to build those facilities. However, there are a few ways of viewing equity in capital funding. One way to think of these definitions of equity is in terms of dividing a pie.

"Horizontal equity" is achieved when all students receive similar funding. One simple way to achieve this is if funds are provided to districts based on the number of students, with each district receiving an equal amount of funding per student. This is like dividing a pie equally among all those eating. However, this type of equity does not inherently guarantee that the pie will be big enough so that all those getting a piece will have their needs met.

In order to ensure that districts have enough funding, the state must consider both *equity* and *adequacy*. While this report will discuss adequacy in more depth later, "adequate" horizontal equity means that the state ensures that each district has an equal *and* adequate amount of funding available on a per-student basis. This is like dividing a pie up equally, but making the pie big enough to begin with so that each of the pieces will be adequate to meet the needs of the average person eating the pie.

"Vertical equity," on the other hand, is achieved when students with different needs receive the amount of funding required to meet those varying needs. For example, a special education student needs different resources than a typical student in order to ensure *comparable educational opportunities*. This stands in contrast to horizontal equity, which provides students with *comparable funding*. This entails providing each district with enough funding for adequate facilities for all of its students' individual needs.

The per-student amount can also vary in vertical equity because different districts have different capital costs of providing students with comparable facilities. For example, in rural areas, the capital cost per student can be much higher when compared to students living in densely populated areas. This is because there are fewer students who nonetheless need the same minimum level of capital facilities. In other words, some districts have better "economies of scale" in numbers of students. Using the pie analogy, this is like making the pie big enough so that everyone gets a piece big enough to meet their needs, even though their needs may differ.

Equity to Taxpayers

This type of equity is where the burden of financing school facilities (through taxes) is divided evenly among taxpayers. It can be considered inequitable that taxpayers in small, low-wealth districts like Tintic or South Sanpete pay property taxes for school facilities at a rate more than twice as high as taxpayers in high-wealth districts like Salt Lake and Park City. Greater taxpayer equity is achieved when taxpayers in low-wealth or high-need districts pay similar rates as taxpayers in high-wealth or low-need districts.

It should be noted that the goals of *equity to students* and *equity to taxpayers* are potentially complementary. If the state were to make funding and facilities more equitable through some degree of pooling and redistributing local funds or through adding state funds to district budgets, it would relieve some pressure at the district level to raise property taxes in order to fund capital needs.

Adequacy

As it concerns school buildings, adequacy means that the facilities available to students meet a certain, minimum standard necessary to ensure students' educational opportunities. Before deciding on the level of state funding for school buildings, the state must consider what constitutes adequacy, because this will establish a baseline

for what the level of need is. When this level of adequacy has been established, the state can begin to determine the costs associated with reaching adequacy. When those costs are apparent, the state can determine the amount of funding necessary to ensure adequacy, as well as the sources of those funds and how to distribute them.

As noted earlier, equity alone does not ensure any minimum facility standards. For instance, all students in the state could have access to comparable facilities, but those facilities could be uniformly inadequate. To meet the conditions of equity and adequacy, the state must provide an adequate number of adequate facilities for all students statewide.

Defining adequacy, in terms of the necessary standard of facilities, however, is complicated and controversial. There are basically four different approaches that have been used to determine levels of adequacy in education. These approaches are *Successful Schools*, *Professional Judgment*, *Evidence-Based Analysis*, and *Advanced Statistics*. [8] While these methods apply to assessing educational adequacy generally, they serve as a useful guide in thinking about how to determine adequacy in educational facilities specifically.

Successful Schools
This approach identifies the spending amounts, on a per-student or per-school basis, of schools that perform at a level determined to be at least adequate and then prescribes that funding amount as the amount necessary for adequacy. While this approach is both simple and clear, it fails to account for intrinsic differences between students, schools, and districts, which funding may or may not affect.

Professional Judgment
This method uses expert advice in determining the educational inputs necessary for attaining educational adequacy and then determines the cost of these inputs. While involving expertise, this approach is limited to the accuracy and consensus of the educational experts.

Evidence-Based Analysis
This approach uses the results of research on educational practices to determine which practices are most effective. Funding levels are then based on the costs of such practices. While this approach is based on empirical evidence, much of the research evidence would likely be derived from populations outside of Utah, which might limit its applicability.

Advanced Statistics
This is actually a form of evidence-based analysis, using statistical techniques and quantitative variables such as expenditures, performance, demographics, and outcomes of various educational activities to determine adequate funding levels. This approach can determine the effects of individual variables on educational performance, including funding. In comparison to evidence-based analysis, advanced statistics can use quantitative data to determine adequate funding amounts for very specific situations. The main limit to this approach is the availability of data on the educational variables.

Equalization

Equalization of school capital funding is a complex issue, and equalization can be defined in several ways. However, some common themes exist in equalization programs and policies for capital funding. Equalization is usually viewed as a way of helping all school districts in a state meet the minimum level of funding necessary to ensure adequate facilities for their students. Most often this means a mix of district and state funding, on a grant or matching basis.

Usually equalization is used as a way of setting a common, minimum standard or "floor," rather than creating a "ceiling," or limit, on the standards, features, or cost of facilities. What this means is that districts that can and want still have the option of using their larger funds to build schools to a higher standard and quality than the adequate level.

This approach to equalization is not entirely foreign to Utah's education funding strategy. In 1947, Utah was in the forefront of states nationwide in equalizing education operations funding when it introduced its Minimum School Program, which is still in effect today. This program serves to establish a minimum operational and maintenance funding level for school districts statewide, by distributing funds based on the Weighted Pupil Unit (WPU). The Weighted Pupil Unit is designed to provide the funding necessary to ensure that students in all districts have at least a minimum level of educational services. Because of economies of scale and varying student needs, this amount varies to meet the needs of different students in different districts.

Funds for the Minimum School Program come from property taxes collected by school districts and from the state's Uniform School Fund, which supplements the funds of districts that are not able to raise the established per-student amount with their own property tax revenues.

With this system, there is still variation in the total funds that districts have for operations and maintenance. This is because of the different taxable property values in districts and a number of optional levies that districts can impose. Districts with high taxable value can have large revenues and therefore funds in excess of the established minimum per student, although the state does recapture property tax revenues from the state-mandated basic levy if they exceed a specific amount, and those recaptured revenues are redistributed to other districts. However, since the state-mandated levy was significantly reduced in the mid-1990s, no district has been subject to recapture since 1995.

Equalization Nationwide
Nationwide, there are currently 38 states that have "building aid programs." Thirty-seven of these programs give aid in the form of grants, or matching funds, or both. One state, Hawaii, has full state funding of all school facilities, due in part to the fact that Hawaii has no local school districts.[9]

Only 11 states provide no grant or matching funds. These include Idaho, Iowa, Louisiana, Michigan, Missouri, Nebraska, Nevada, North Dakota, Oklahoma, Oregon, and South Dakota. Of these, Michigan and North Dakota, while not providing grants, nonetheless provide aid in the form of loans.[10]

As was noted earlier, a number of these building aid programs were put in place after lawsuits were brought against states, based on the inequity of school facilities between districts or the inadequacy of facilities. It is also possible that policymakers in states whose programs were not the direct result of lawsuits nonetheless were influenced by lawsuits in other states.

Capital Facilities Equalization in Utah

Utah currently provides aid for capital projects in the form of its Capital Outlay Foundation and Enrollment Growth Programs. The Capital Outlay Foundation Program requires that participating districts tap their existing capital funding resources before receiving state aid by requiring them to impose a sum-total of 0.0024% in property taxes for capital funding. Aid to qualifying districts that do not impose this full amount is proportional to the percentage of the 0.0024% that they choose to impose.

Funds are distributed, in the case of the Capital Outlay Foundation Program, based on the difference between the districts' amount of funding per pupil generated by the 0.0024% rate and a certain state-guaranteed level of funding per pupil. District funds are supplemented by the state to make up the difference between how much the district has per pupil and the state-guaranteed level of funding per pupil.

The Enrollment Growth Program distributes fund to districts that experience net enrollment growth and whose capital funding is below twice the statewide per-student average. However, the amount of funding per pupil in both programs is determined year to year by the funds allocated by the state to the Capital Outlay Foundation and Enrollment Growth Programs, rather than by determining an adequate funding level. So, while these two programs distribute the available state funds with some measure of equity, they do not guarantee any level of adequacy.

The total funding for both programs is currently $77.2 million, with $39.4 million allocated to the Capital Outlay Foundation, and $37.9 million for the Enrollment Growth Program. This is a large increase over the prior year, in which a total of $37.3 million was allocated to both programs. The current-year funding will provide a floor of around $675 per pupil in the Capital Outlay Foundation Program. However, only $37.3 million of this funding is ongoing, with the remainder being one-time money. One-time money is not an ideal source of revenue for bonds, which require long-term, sustained amounts of funding.

At current funding levels, the Capital Outlay Foundation and Enrollment Growth Programs, while distributing funds equitably, do not ensure adequate funding and, in this sense, are more supplemental programs than equalization programs. However, given enough funding, the programs could ensure a minimum standard of facilities for students by providing the per-student funding necessary to build an adequate number of adequate schools statewide.

In light of the growth in the student population in Utah and the splitting of the Jordan School District, the Utah State Legislature set up an "Equalization Task Force," in the fall of 2007. The task force was charged with studying, exploring, and recommending a capital fund equalization policy. The task force voted to recommend a bill proposed by Senator Dan Eastman.

The proposed bill would appropriate a total of $53 million to the Capital Outlay Foundation Program in 2008-09. This would be an increase of $25 million over the current ongoing appropriation. Additionally, the bill would require districts to impose at least a 0.0030% property tax rate, up from 0.0024%, in order to receive their full share of funds. Later in this report is an analysis of various potential changes to the Capital Outlay Foundation Program, including an examination of how this bill would affect the program's outcomes.

FINANCING SOLUTIONS

Creating new policies and programs designed to equalize capital funding means little unless there are mechanisms for acquiring and distributing enough dollars to fund capital projects at an adequate level.

Acquiring Funds

While there are a number of ways in which the state can collect funds in general, in the case of capital funding for schools, taxes are the most likely. Fees and other funding sources for capital would tend to further exacerbate issues of equity to students and taxpayers, in addition to not solving the adequacy problem. The following is a look at the different tax sources that could feasibly be used to finance capital projects statewide.

Local Property Tax

This revenue source is currently the main source of district capital funds. The state's Capital Outlay Foundation and Enrollment Growth Programs are funded with state income tax monies as a supplement to local property taxes, but the programs are a very small proportion of all capital funds. Using the local property tax to fund capital outlays would mean increasing the rates that districts can or should impose locally.

An advantage of the property tax is that it is a very stable base of revenue, not fluctuating greatly from year to year. This makes it a good source of revenue for paying debt service. Also, according to a recent Utah Foundation report on the tax burden in Utah, the data show that Utahns have a very low property tax burden compared to the rest of the nation, particularly with regard to primary residences, which enjoy a 45% exemption in addition to low tax rates.[11]

On the other hand, some taxpayers in Utah are upset by the recent increases in the amount of property taxes they pay, due to increasing property values. Furthermore, if the local property tax were used to raise sufficient revenue to provide adequacy and equity for students and if the rate were locally levied, there would still be great inequity in the burden on taxpayers. Currently, those who live in high-growth or low property-value districts are taxed at rates up to five times greater than stable, low-growth districts, because the former have raised property taxes to finance new schools and pay debt service on school bonds.[12]

State-Controlled Property Tax

This tax is a property tax that, even if collected locally, would have its rate set at the state level, with the potential of recapture from high-wealth districts to aid low-wealth districts. Currently, under the state-mandated basic levy for education and the Minimum School Program, which fund education operations, districts whose levies yield more than a given amount are subject to recapture, with the state redistributing the amount of revenue above the set level. However, the recapture amount has been high enough that no districts have been subject to recapture since 1995.

Using a state property tax to fund capital needs would mean imposing a property tax that would yield the necessary capital funds to ensure adequacy, and then either collecting all revenues at the state level

and distributing them, or capturing revenues in excess of a target amount and redistributing that portion to lower-wealth districts. As with the local property tax, a state-imposed property tax would prove a very stable source of capital revenue. Also, as mentioned above, the current property tax burden is very low compared to the rest of the country.

The equity of the tax to students would depend on how the funds acquired with the tax would be distributed by the state. The equity of the tax to taxpayers would probably be high because the state could levy a uniform rate and redistribute the burden for capital funding across the whole state, instead of leaving that burden on individual districts' taxpayers.

State Income Tax

This revenue source is the current state means of assisting districts with funding school needs. Currently, the state income tax is earmarked for use only in K-12 public education and higher education.

If the state were to use this tax as a means of financing adequate capital outlays statewide, it would entail either taking funds from K-12 education operations or from higher education, or raising the state income tax to generate more revenue. If income tax revenues were to continue growing at a rapid pace, perhaps increased capital funding could be accommodated through revenue growth.

Compared to property taxes, income taxes are more subject to economic fluctuations. Therefore, as far as stability, income taxes rank lower than property taxes. As far as equity is concerned, with Utah's new flat income tax, the income tax would equally affect taxpayers statewide. This means the distribution of the tax burden would not be confined to the local areas where many schools need to be built. Rather, the burden would be spread across the state. Because the income tax is a statewide tax, equity to students would depend on the distribution of the income tax funds by the state.

The income tax is a likely candidate to be combined with other taxes in funding capital needs. Currently, the income tax serves, in combination with local property taxes, to help finance school operations. This could easily be applied to acquiring funds for building schools as well. However, doing so would likely lead to school capital needs competing with school operations funds and higher education funding in the Uniform School Fund.

If the state wanted to relieve some of the burden for districts in financing schools, the state income tax could be supplemented with state general fund money, which primarily comes from the state sales tax.

State Sales Tax

The state sales tax could be utilized as a new funding source for school capital needs. Revenues would need to be appropriated from the general fund, and this use of funds would compete with all of the other functions the state undertakes with general fund monies. This includes funding for highways, healthcare, and prisons, which are growing programs that need continued funding growth.

The sales tax is the most volatile of the taxes discussed here, depending greatly on economic cycles and consumer confidence. Although the state sales tax is derived from a broad base of consumption statewide, it is considered less equitable to taxpayers because it is regressive; lower-income taxpayers pay a higher proportion of their incomes in sales taxes than high-income taxpayers. As with all the state tax revenue sources listed here, the equity to students of the state sales tax depends on how the state distributes that revenue.

Distributing Funds

In addition to determining where to acquire the funds for capital facilities, equalization policies need to consider *how* the funds are to be distributed. Just as with the choice of revenue sources, the choice of how to distribute funds affects how equitable the given policy or program will be.

The following are four basic, feasible ways of distributing capital funds from the state to the school districts. The way in which these alternatives are funded is not specified, as funding options have been addressed above.

Debt Supplements

Debt supplements are aid to districts in the form of state-sponsored loans and/or state assistance with outstanding or future bonds. This aid can take the form of low-interest or favorable-term loans from the state, state-subsidized loans or bonds, and extended or restructured repayment on loans or bonds, sponsored by the state. This alternative still requires that districts either submit a bond for voter approval or obtain approval for a state or other loan. Currently Utah allows school districts to take advantage of the state's AAA credit rating in obtaining favorable debt terms.

Debt supplements are essentially a way of improving equity and adequacy on the margins. Such assistance would certainly ease some of the burden on school districts and therefore create greater equity for students and taxpayers, relative to the status quo.

However, the tax burden would still rest disproportionately on taxpayers in high-growth or low-revenue districts. Students who live in certain districts would still be at a disadvantage compared to students in other districts, when it comes to capital facilities. On the other hand, debt supplements are a very economically palatable solution and local control over capital projects would likely be strong.

Project Supplements

This is aid from the state in the form of grants for specific district capital projects. In this case, districts would apply for state grants and then qualify on the basis of certain criteria. These criteria would determine how necessary a project may be and whether a district lacks sufficient revenue capacity to ensure the project meets minimum, adequate standards for that type of facility. The criteria would then determine what amount the state would grant the district, based on the district's need (educational need for the facility, coupled with lack of funding ability) and effort (which could be based on the current tax rate as a proportion of a pre-determined "ceiling rate," which would cap the tax burden).

Project supplements could potentially go a long way to improving equity and adequacy in facilities for students because they target specific projects in need of funding. Although there is potential for less local control, the state oversight of projects could be limited to the facilities that receive aid, rather than to all district facilities. Project supplements could also serve to relieve some of the tax burden on taxpayers in certain districts, at least on the margins. However,

because project supplements would be project-based, there would be no guarantee of addressing district-wide funding problems.

District Supplements

This is state aid in the form of funds dispersed to districts to ensure they have the resources necessary to provide all of their students with the minimum, adequate number and standard of facilities. Criteria would determine which districts lack the revenue necessary to ensure a minimum, adequate level of facilities. These criteria could be based on a weighted, per-pupil formula, similar to how state operational and maintenance funds are distributed. Funds would then be distributed based on need and local funding effort.

District supplements would be the most effective of the distribution mechanisms outlined here in promoting equity for students across the state. This is because the funding for all students across the state would be equalized to a minimum, adequate level, although the option could remain for some districts to have per-pupil funding above that minimum, due to local preferences or the varying taxable values between districts.

District supplements would also be very good at creating equity in the tax burden for taxpayers. This is because poorer or high-growth districts that would otherwise need to raise taxes above the level of wealthier or low-growth districts in order to build, renovate, and rebuild schools would have much of those costs offset by state aid.

As far as adequacy, assuming the state would appropriate sufficient funds, district supplements would be very effective at ensuring a minimum, adequate level of funding.

On the other hand, increased state funding would likely bring greater state oversight. This would result in less local control over how school facilities are built. Furthermore, of the options outlined here, district supplements would probably require the largest financial commitment by the state. The funds necessary for district supplements would likely be considerably higher than those necessary for the status quo, even if a greater district-level tax effort were required by the state to qualify for state aid funds.

Status Quo

This is the current system for state aid for capital projects, including the Capital Outlay Foundation and Enrollment Growth Programs, at current funding levels. As has been mentioned, distribution of funds is based on the tax effort of districts and the difference between the per-student funds generated by local effort and a floor amount set by the state. This floor, or minimum funding per pupil, is determined by the amount of funding the Legislature appropriates to the programs in a given year and changes each year.

The current system does not provide for good equity among students statewide, with certain districts having more than adequate capital funding and others struggling to finance sufficient facilities. The tax burden for building schools is not shared equitably across the state either, due to greatly varying capital needs between high and low-growth districts, as well as between districts with different taxable property values.

The status quo has a couple of advantages. It leaves the control for making decisions about school facilities almost entirely at the local level, which keeps flexibility for dealing with local preferences. Additionally, the status quo is very economically feasible, when considering state-level finances.

MODELING POTENTIAL CHANGES TO THE CAPITAL OUTLAY FOUNDATION PROGRAM

As has been noted above, the status quo programs, at the status quo funding level, do not provide well for equity in capital funding across the state. However, given an adequate amount of funding, these programs could serve to equalize the minimum level of facilities available to students statewide.

If the Capital Outlay Foundation and Enrollment Growth Programs were funded adequately, they would function much like *District Supplements* in that they would grant state funds to districts, based on need and effort, with the goal of bringing all districts' per-student funding up to an adequate level. The Capital Outlay Foundation would serve as a way of equalizing the capital funding available to students overall, while the Enrollment Growth Program would serve as a way to ameliorate the effects of rapidly growing student populations.

An adequate level of funding per student is difficult to determine and beyond the scope of this report. However, the Capital Outlay Foundation model can be used to determine what the total, annual state funding commitment would need to be for a given level of funding per student, if the state were to distribute funding through those channels.

The Enrollment Growth Program model could be used to derive the funds needed to adequately house new students. However, this section will focus on the Capital Outlay Foundation as the Enrollment Growth Program is not so much a tool of equalizing current capital funds as it is a way of paying for new capital needs.

Results of Utah Foundation Model

Utah Foundation created a model, based on the current Capital Outlay Foundation Program, to measure the effects of potential changes in the formulas or levels of funding provided by the program. The model shows how various changes would affect the guaranteed, adequate amount of per-student funding and the actual funds available to individual districts, among other variables.

This model was constructed using the 2006-07 fiscal year as the test year. The "current formula" scenario is based on appropriations and allocations from that year, along with tax base and student ADM counts from that year. This differs from the method actually used by the Utah State Office of Education (USOE) to calculate distributions of these funds. Because USOE is allocating the funds to districts before some of the data are known, it uses prior-year tax bases with current-year tax rates to determine which districts qualify for aid. USOE also uses prior-year ADM counts in its formula. This formula is problematic, especially when property values rise quickly as they did in recent years. Because of Utah's Truth in Taxation law, when property values rise, districts usually lower their tax rates to reduce any windfall from higher property values. This occurred in fairly dramatic fashion in the current fiscal year, with 22 of the 40 districts reducing tax rates; the average reduction was 15%. When that new, reduced tax rate is multiplied by the prior year's tax base (which is

Figure 5: Comparison of Modeled Alternatives to Current Capital Outlay Foundation Program

Scenario	Total State Outlay	Minimum Per ADM	Median Per ADM	Standard Deviation	Range (Max - Min)
Current Formula (2006-07 Fiscal Year)	$24,358,000	$528	$1,053	$591	$2,921
$1,000 Minimum Yield @ 0.0024% Qualifying Rate, Assuming Current Tax Rates	163,508,452	735	1,279	492	2,714
$53 Million Appropriation @ 0.003% Rate, Assuming Current Tax Rates	52,858,000	616	1,118	562	2,833
$53 Million Appropriation @ 0.003% Rate, Assuming Tax Rates Increase for Districts That Would Benefit	52,858,000	616	1,118	548	2,833
$1,000 Minimum, 50% Recapture over $2,000 @ 0.003% Enforced Rate	96,302,484	1,000	1,000	683	2,770
$1,000 Minimum, 100% Recapture over $2,000 @ 0.003% Enforced Rate	86,693,496	1,000	1,000	427	1,000
$1,000 Minimum, 50% Recapture over $1,000 @ 0.003% Enforced Rate	66,726,579	1,000	1,000	501	2,270
$1,000 Minimum, 75% Recapture over $1,500 @ 0.003% Enforced Rate	75,098,028	1,000	1,000	395	1,510
Full Equalization to $1,300 @ 0.003% Enforced Rate	177,527,784	1,300	1,300	0	0

Source: Utah Foundation.

lower than the current year's base), the formula can significantly underestimate a district's fiscal capacity and thus provide more aid to some districts than may be warranted, at the expense of other districts that may have greater needs.

The Utah Foundation model uses the 2006-07 fiscal year for all input data (tax base, tax rates, and ADM count). In practice, using the formula as this model does would require using all prior-year data whenever allocations are made. For example, for the current (2007-08) fiscal year, the formula would need to be based on 2006-07 tax bases, tax rates, and ADM counts. Although this would lag one year in measuring a district's local tax effort, it seems a better solution than mixing tax rates from one year with tax bases from another year.

This report models six scenarios and compares them with the current distribution formula on measures of their cost to the state, effects on the level of adequacy in per-student funding to each district, and effects on the equity of per-student funding across districts. To measure adequacy, this report examined each scenario's district with the least revenue (the minimum) and the median district's revenue. Higher minimums and medians indicate greater adequacy.

Measures of equity include the standard deviation of revenues and the range between the district with the highest revenue and the district with the lowest. Lower standard deviations and ranges of revenues indicate more equity.

Figure 5 compares these measures across the alternatives and the status quo. In addition, in Figures 6 through 13, each alternative has been graphed to show its effects on districts' per-student capital revenues compared with the status quo.

Equalization Task Force Proposal

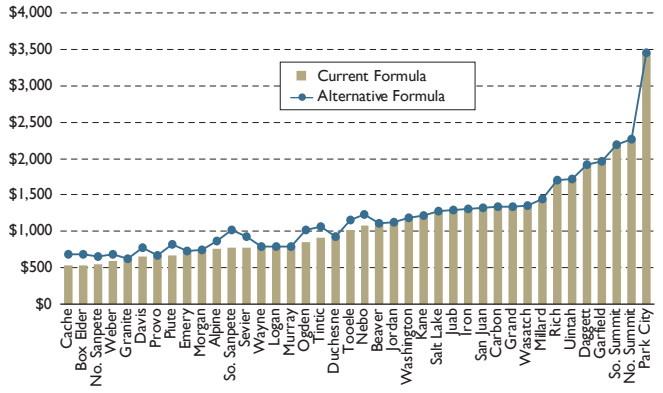
The first scenario models the effects of the proposal recommended by the Legislature's "Equalization Task Force." This proposal essentially uses the same formula as the current Capital Outlay Foundation Program, while raising the locally-levied property tax rate required for districts to receive their full share of state funds to 0.003%. In addition, the proposal allocates a total of $53 million in ongoing funds, an increase of $25 million over current ongoing appropriations, although including one-time funding this year, this proposal would be just $13 million over current funding levels.

It is not known which districts would increase their local property tax rates in response to this proposal, because decisions about rate increases are made based on districts' individual financial decisions, as well local political factors. Therefore, this report models the effects of the proposal in two ways: 1) assuming no districts would change their tax rates, and 2) assuming each district that would gain additional state funds by increasing its rates would change its tax rates. The reality would likely be somewhere in between.

In terms of cost to the state, the proposed allocation of $53 million would be an increase of roughly $13 million over the current state capital funds in both scenarios. Both scenarios raise the minimum per-student funding by a little less than $100, while the median funding per student goes up by about $65. In terms of equity, the standard deviation for the two proposal scenarios decreases by $30 under the no-rate-change scenario and by a little more than $40 in the scenario assuming tax rate changes. The range of per-student revenues in both scenarios goes down by about $90, indicating somewhat higher equity.

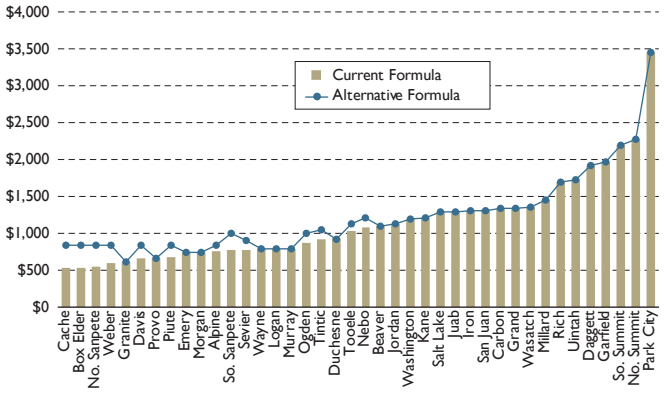
Figures 6 and 7 both graph the differences between the status quo and the potential effects of the "Equalization Task Force Proposal." Under the rate-change scenario, the "guaranteed yield" amount (the revenue at a given rate that the state guarantees to districts participating in

Figure 6: Change Qualifying Tax Rate to .003%, Assume Districts Keep Existing Tax Rates
State Cost: $53 Million



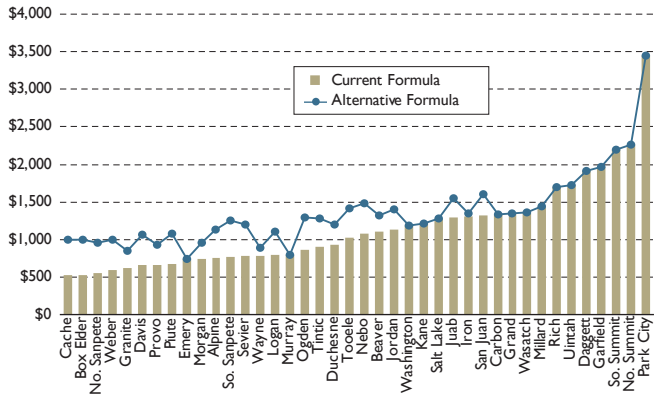
Source: Utah Foundation.

Figure 7: Change Qualifying Tax Rate to .003%, Assume Districts Raise Tax Rates to .003% if They Qualify for State Funding
State Cost: $53 Million



Source: Utah Foundation.

Figure 8: Existing Formula, Based on .0024% Qualifying Tax Rate, With Minimum Funding "Guarantee" of $1,000 Per ADM
State Cost: $164 Million



Source: Utah Foundation.

the program) is higher than in the no-rate-change scenario; however, the overall effects on adequacy and equity are comparable. In both cases, the additional funds provide assistance to a number of poorer districts, but the overall effects on adequacy, and especially equity, are not considerably greater than the status quo.

Current Formula with Funding at $1,000 Per Student

In the next alternative scenario modeled, the current Capital Outlay Foundation formula is used to ensure a minimum of $1,000 in per-student capital revenue yield at the current rate for full participation in the program, which is 0.0024%. This means that any district that levies at least 0.0024% in property taxes for capital revenue would receive aid that would be added to its actual per-student revenue yield at 0.0024% in order to ensure it has at least $1,000 per student at that rate. Districts that levy a rate below 0.0024% and whose revenues would be below the guaranteed minimum of $1,000 at 0.0024% would receive funding proportional to the amount of the 0.0024% rate that they levy. While $1,000 is not necessarily an adequate amount, it is close to the current state average and serves as a good example and starting point for this, as well as the following models. This scenario assumes that no districts would change their local capital-related property tax rates.

As Figure 8 shows, the minimum revenues per student would be brought up significantly among the poorer districts, while the effects on wealthier district would be unchanged. The only districts that would not receive at least $1,000 in total per-student capital revenue would be those districts that do not qualify for state aid because their local tax base per student is too high and they choose to levy a tax that produces less than $1,000 per student.

Furthermore, Figure 5 shows an increase in the minimum per-student amount of about $200 over the status quo while the median goes up by about $220. The standard deviation and range of per-student revenues drop by about $100 and $200, respectively, indicating an increase in equity across districts. However, at a cost of $164 million to the state, this alternative is much costlier than the status quo.

Funding to $1,000 with 50% Recapture Above $2,000

The next modeled scenario is a greater departure from the status quo in that it would require that a certain rate, 0.003%, be levied at the local level by all districts. Revenues above a certain amount would be recaptured by the state for the purpose of redistributing funds to districts with lower revenues at the same rate. The minimum, guaranteed per-student amount in this scenario would be $1,000. Districts with greater property wealth would retain all their extra revenues up to $2,000 per student, after which 50% of the revenues above $2,000 would be recaptured by the state. The state would add the funds necessary, with the aid of recaptured funds, to bring up the minimum district per-student funding to $1,000.

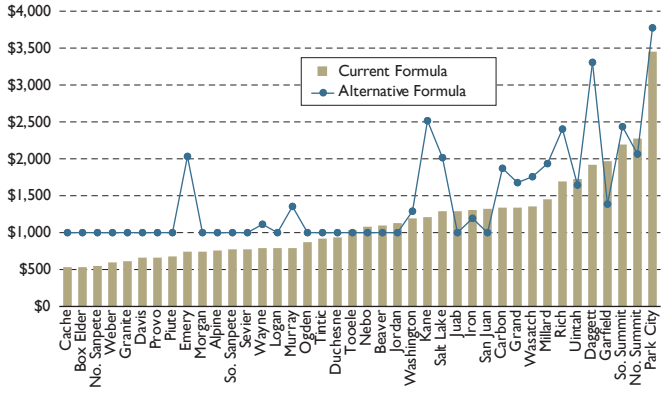
In this scenario, it should be noted that the spikes in Figure 9 indicate that some wealthier districts would receive revenues above what they currently receive, because they would be required to levy a tax rate higher than their current rates. However, if it were determined that this local yield were more than the district could reasonably utilize, policies could be designed to create a lower tax rate but still yield the same recapture amount for the state to redistribute to other districts. Figure 9 also illustrates significant increases in the minimum level of funding among districts.

With guaranteed minimum per-student yields of $1,000, the minimum and median per-student revenues are both increased to $1,000 per student, which represents an increase of about $500 per student in the minimum, but a decrease of $50 in the median. The standard deviation actually increases over the status quo because some of the high property-value districts would generate more revenue than they now receive. However, as mentioned above, if some provision were put in place to lower the rates for wealthier districts, this would decrease significantly. The range of revenues, which is $150 less than the status quo, would also go down with such a provision. This alternative would cost the state $96 million, which is considerably higher than the status quo.

Funding to $1,000 with 100% Recapture Above $2,000

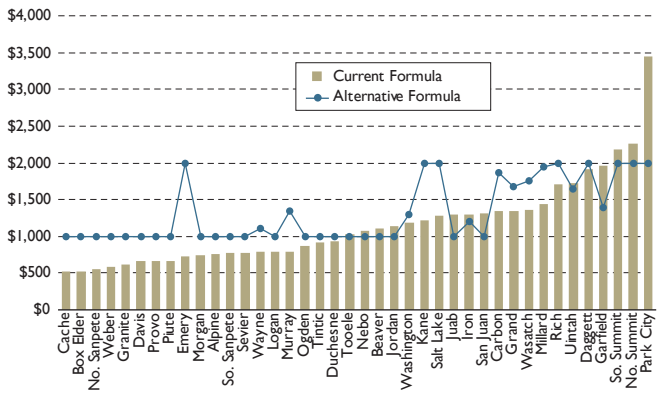
This scenario works similarly to the previous one with the exception that *all* district revenues above $2,000 per student, at a required 0.003% tax rate, are recaptured by the state. Figure 10 shows the effects of this alternative. One of the major differences between the previous alternative and this one is that the wealthier districts are capped at a $2,000 maximum per-student revenue. While a few districts receive more revenue in this case compared with the status quo, there could be a provision, similar to the one in the previous scenario, that allows for a reduction of their tax rate, if the district

Figure 9: Require Tax Levy of .003%, Guarantee $1,000 Per Pupil Minimum, Recapture 50% of Funding Above $2,000 Per Pupil
State Cost: $96 Million



Source: Utah Foundation.

Figure 10: Require Tax Levy of .003%, Guarantee $1,000 Per Pupil Minimum, Recapture 100% of Funding Above $2,000 Per Pupil State Cost: $87 Million



Source: Utah Foundation.

would receive more revenue than it can reasonably utilize and if the district provides the same amount of recapture revenues to the state.

Figure 5 illustrates the other main differences, which are a decrease in the range of revenues and standard deviation to $1,000 and $427, respectively, and a decrease in the state funds necessary to $87 million. In the whole, this alternative creates more equity at less cost than the previous proposal. On the other hand, the per-student revenues of wealthier districts would be decreased, reducing local discretion over capital facilities funding levels.

$1,000 Minimum with 50% Recapture Above $1,000

This scenario functions similarly to the previous two, however, the recapture amount in this case is set at 50% of everything above the minimum $1,000. Figure 11 shows how this alternative affects the individual districts' per-student funding.

Compared with the previous two recapture alternatives, the per-student amounts in excess of what some wealthy districts currently receive are smaller. As before, tax rate adjustments could correct for these excesses of revenue. Referring back to Figure 5, the range is smaller than the status quo by about $650, indicating a higher level of equity. The median and minimum are $1,000. However, the most interesting figure is the total cost to the state, at $66.7 million, which is very low, relative to the increases in adequacy and equity.

$1,000 Minimum with 75% Recapture Above $1,500

This case is similar to the other recapture scenarios, with a cap of $1,500, as opposed to $1,000 or $2,000 before recapture kicks in, allowing districts more room for higher per-student spending.

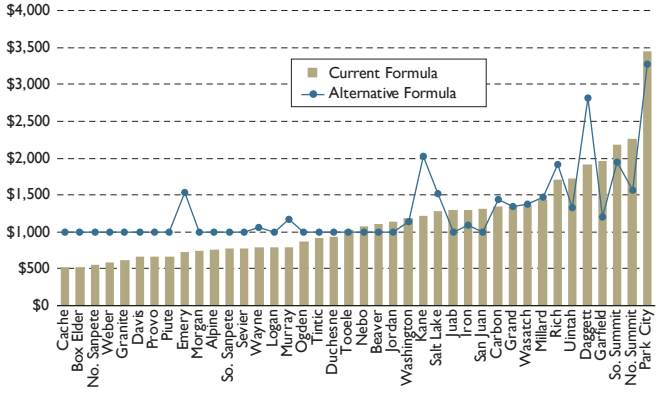
Figure 12 illustrates that this scenario performs similarly to the prior scenario, with some of the higher revenue excesses in wealthy districts being even more moderated. The cost to the state is $75.1 million. The standard deviation is the lowest among all the alternatives examined here, at $395, with a $1,000 minimum and $1,000 median. The range is also among the lowest, at $1,510. All these statistics indicate high performance on equity and adequacy measures, relative to the status quo and the other options presented here.

Funding Fully Equalized to $1,300

The final scenario is quite simple, modeling revenues if the state were to require that all districts impose a 0.003% rate and receive $1,300 per student. The state would then collect and redistribute 100% of local revenues above $1,300 per student. Effectively, this creates a statewide tax and distribution system that allocates the same amount of funds on a per-student basis, regardless of what district the student is in. Figure 13 displays what this would look like compared with the status quo. This system would create maximum equity with a $0 standard deviation and range.

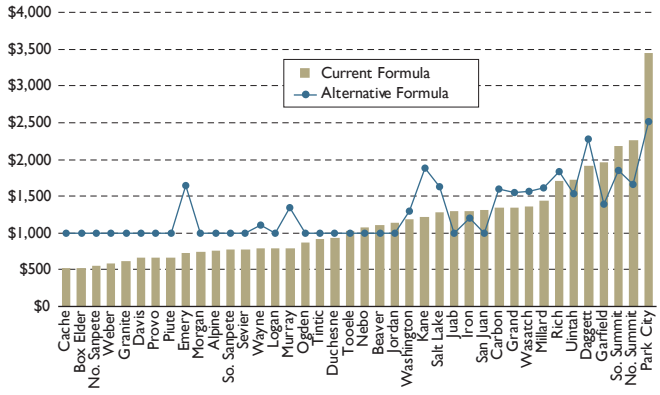
The cost to the state would be $178 million. This cost could, of course, be decreased or increased by changes to the guaranteed student amount and the property tax rate. If, for example, the property tax rate were increased to 0.0035% and the guaranteed per-student amount were lowered to $1,200, the cost would be about $48.8 million. However, it should be noted that any capital equalization alternatives that recapture 100% of revenues above a certain level should create a "hold harmless" provision for districts with existing bonds that require a higher per-student funding level to satisfy their debt service.

Figure 11: Require Tax Levy of .003%, Guarantee $1,000 Per Pupil Minimum, Recapture 50% of Funding Above $1,000 Per Pupil State Cost: $67 Million



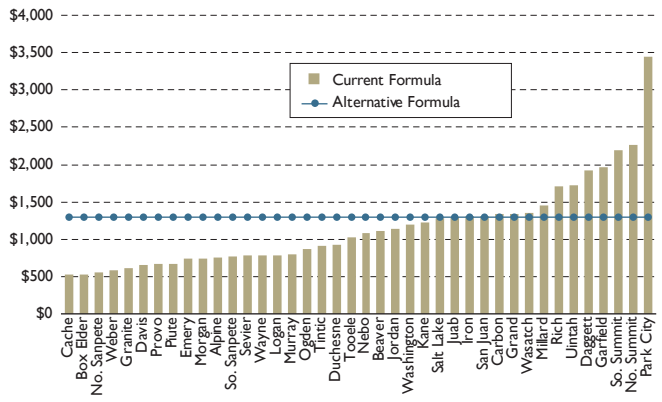
Source: Utah Foundation.

Figure 12: Require Tax Levy of .003%, Guarantee $1,000 Per Pupil Minimum, Recapture 75% of Funding Above $1,500 Per Pupil State Cost: $75 Million



Source: Utah Foundation.

Figure 13: Require Tax Levy of .003%, Guarantee $1,300 Per Pupil, Recapture 100% of Funding Above $1,300 Per Pupil
State Cost: $178 Million



Source: Utah Foundation.

ENDNOTES

[1] Utah Foundation analysis of Annual Financial Reports published by Utah State Office of Education, focused on outlays related to buildings and land reported in the Capital Projects Fund in those reports.

[2] The National Access Network, http://www.schoolfunding.info/policy/facilities/facilities.php3

[3] Smith, Steve. *Education Finance Litigation: Overview, Research, & Trends*. Presentation at the Governmental Research Association Conference. July 26, 2005.

[4] *State Building Authority Survey*. Office of Legislative Research and General Counsel. Prepared for the Utah Legislature's "Equalization Task Force." Oct. 2007.

[5] *School Capital Outlay Funding*. Office of Legislative Research and General Counsel. Nov 2007.

[6] USOE School Finance and Statistics: http://www.schools.utah.gov/finance/other/AnnualReport/06ar/Statistics/STUDENTS/State_Enrollment_Projections.xls

[7] Alpine School District *Comprehensive Annual Financial Report, Fiscal Year 2007*. p. 13.

[8] Smith, Steve. *Education Finance Litigation: Overview, Research, & Trends*. Presentation at the Governmental Research Association Conference. July 26, 2005.

[9] Huang, Yao. 2004. "Appendix C: A guide to State Building Aid Programs for Elementary and Secondary Education." In Helping Children Left Behind, ed. John Yinger, 353-366. Cambridge, Massachusetts: The MIT Press.

[10] Huang.

[11] *Utah's State and Local Tax and Fee Burdens*. Utah Foundation Research Brief. May, 2007.

[12] *School Capital Outlay Funding*. Office of Legislative Research and General Counsel. Nov 2007.

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