

2017 Utah Legislative Session - Week 4

Insight — February 23, 2017

Budget Update & New Revenue Numbers

Final revenue estimates are always released in the last third of the Utah session as legislators work to finish balancing the state's budget. The release of the final revenue estimates is a highly anticipated event. Last week, I reported that after base budgets were passed, the state had about \$285 million in surplus and revenue growth available for new programs, teacher raises, and other spending priorities, but had received over \$550 million requests for the money. This week the new revenue numbers gave the proponents of those spending requests reason to hope they might make the final cut, as they learned there is approximately \$100 million in additional revenue now available.

The vast majority of the new estimated funds will be allocated to the Education Fund, because it is derived from income tax which is constitutionally dedicated to this fund. Of the \$100 million in growth, \$77 million will go toward education. The remaining \$3 million in growth will flow to the General Fund and is largely being attributed to the State's new deal with Amazon to collect sales tax on the marketplace items it sells to Utah consumers.

Tax Reform Proposal

Year-over-year growth in Utah is still positive, with the General Fund tax revenues growing by 4.6%, and the Education Fund tax revenues growing by 5.75%. However, rumors have been flying at the State Capitol for the past week that an omnibus tax reform proposal might happen this year. It is late in the session for a proposal of this size and nature, but it seems the Governor and leadership of the House and Senate are in agreement on key principles. If they are able to come to full agreement, several tax bills will be drafted and likely moved through the legislative process quickly. The overall goal of the reform proposed is to broaden the base and lower the rates while also providing tax stability. The proposals include:

- Lower the state income tax and phase out tax credits for federal exemptions at a lower adjusted gross income level than is currently allowed.
- Broaden the sales tax base by reinstating the state portion of the sales tax on food and also pass online sales tax collection reform bills. This would include lowering the overall state sales tax rate so the proposal is revenue neutral.
- Increase the number of industries that can utilize single sales factor

apportionment of business income.

- Adjust the gas tax trigger threshold that is tied to a wholesale rack index price. With the dramatic and sustained drop in oil prices, the trigger mechanism developed two years ago to slowly raise the gas tax by 5 cents, is now many years from being reached.
- Property Tax Basic Levy Freeze: The statewide basic property tax levy is used for education funding. The proposal would add a floor to the basic property tax levy so the tax rate doesn't decrease as property values rise.

Education Update

Education is one of the policy areas that always interests people. Here are a few funding updates on the Education budget that are known in this last third of the session. The Public Education Appropriations subcommittee is recommending a 3% (\$90 million) increase to the K-12 budget this year. This is in addition to the \$68 million that was also appropriated for student population growth.

My husband is a teacher so I'm very aware that teachers buy classroom supplies out of their personal household budgets. I'm very happy to report that the subcommittee also recommended moving the teacher supply budget from one-time funding to ongoing funding at the \$5 million level. Hopefully over time this line item will grow.

Finally, I know that many students, parents and teachers are frustrated with SAGE testing. SB220 Student Assessment and School Accountability Amendments repeals the requirement for students in grades 10-12 to take the SAGE test and instead replaces it with the ACT test.

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