

Amendment G Passed -- What Happens Next?

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Election Results from

<https://electionresults.utah.gov/elections/ballotprops>

Constitutional Amendment G

RESULTS BY COUNTY

COUNTY COMPLETION REPORT

| | % Popular Vote | Popular Vote |
|---------|--|--------------|
| FOR | 54.09%  | 764420 |
| AGAINST | 45.91%  | 648840 |



What changes will result from this Constitutional amendment going into effect January 1, 2021, along with the legislation triggered by it (HB 357)?

The short answer is, “Probably not a lot, at least not immediately, but possibly quite a bit over the long term.”



As a result of the passage of Amendment G,
the Utah Constitution Article XIII, Section 5,
paragraph 5 changes from:

“All revenue from taxes on intangible property or from a
tax on income shall be used to support the systems of
public education and higher education as defined in
Article X, Section 2.”

to the following:

“All revenue from taxes on intangible property or from a
tax on income shall be used:

- (a) to support the systems of public education and higher
education as defined in Article X, Section 2; and
- (b) to support children and to support individuals with a
disability.”

Q: WHY DID THE STATE'S POLITICAL LEADERSHIP WANT THIS AMENDMENT?

A: FEAR OF LOSING BUDGET FLEXIBILITY ONCE THE HIGHER EDUCATION BUDGET SHIFTS COMPLETELY OUT OF THE GENERAL FUND AND INTO THE EDUCATION FUND



THE HIGHER EDUCATION BUDGET HAS BEEN SHIFTING FROM THE GENERAL FUND (GF) TO THE EDUCATION FUND (EF):

| Fiscal Year | Higher ed \$\$ from General Fund | Higher ed % from GF | Higher ed \$\$ from Education Fund | Higher ed % from EF | TOTAL GF+EF HIGHER ED BUDGET (nominal) |
|-------------|----------------------------------|---------------------|------------------------------------|---------------------|--|
| FY14 | \$374,793,300 | 48% | \$ 409,817,200 | 52% | \$ 784,610,500 |
| FY15 | \$361,920,700 | 41% | \$ 513,034,000 | 59% | \$ 874,954,700 |
| FY16 | \$232,830,900 | 25% | \$ 688,272,200 | 75% | \$ 921,103,100 |
| FY17 | \$352,677,700 | 36% | \$ 616,822,900 | 64% | \$ 969,500,600 |
| FY18 | \$280,228,700 | 27% | \$ 743,969,300 | 73% | \$1,024,198,000 |
| FY19 | \$ 39,572,100 | 4% | \$1,067,276,400 | 96% | \$1,106,848,500 |
| FY20 | \$499,671,700 | 44% | \$ 633,878,000 | 56% | \$1,133,549,700 |
| FY21 | \$ 50,000,000 | 4% | \$1,208,476,400 | 96% | \$1,258,476,400 |

This has made it possible to free up GF dollars to increase investment in social and healthcare services. But once higher ed is completely out of the GF, a new flexibility mechanism is needed. Hence, Amendment G.



Q: What will be the impact of Amendment G on education funding?

A: Passage of Amendment G triggers HB 357

<https://le.utah.gov/~2020/bills/static/HB0357.html>

to compensate K-12 education for losing the Constitutional earmark of income tax for education in 3 ways:

- 1) It requires that “when preparing the Public Education Base Budget, the Office of the Legislative Fiscal Analyst shall include appropriations to the Minimum School Program from the Uniform School Fund... in an amount that is greater than or equal to:
 - (a) the ongoing appropriations to the Minimum School Program in the current fiscal year; and
 - (b) ... enrollment growth and inflation estimates...”

This is intended to avoid what happened in the Great Recession a decade ago, when annual appropriations were not sufficient to keep up with inflation and enrollment growth, and it took almost a decade to restore real per-student education appropriations.

- 2) HB 357 requires that 15% of education revenue growth go into a new “Public Education Economic Stabilization Restricted Account” to be saved for recessions until it reaches 11% of the full Uniform School Fund.
- This is intended to build up a new reserve fund of about \$400 million to finance the first commitment mentioned above, the commitment that education funding will always increase by enough to cover enrollment growth and inflation, even in times of recession.
 - This new annual 15% annual savings requirement will mean smaller education funding increases in good times – but larger ones in bad times, in effect smoothing out the annual changes in education funding.
 - It does not change the overall amount available for education budgets over the full course of each economic cycle.



- 3) HB 357 allows local districts to reallocate capital funds to cover operating expenses in recession years.
- This is something that was allowed on a one-time basis in the Great Recession a decade ago. Now it will be allowed in any year when the Legislature makes use of the new Public Education Economic Stabilization Restricted Account.



Q: What impact will Amendment G and HB 357 have on funding for social and healthcare services for children?

A: On the positive side, budget writers will now have increased flexibility to use income tax revenues that are now going to education for social and healthcare services for children and Utahns with disabilities.

On the negative side, there are no new revenue streams and no rolling back of past tax breaks, and HB 357 does promise an increased commitment to education in recession years (presumably including the current one), so that seems to imply that there will be less available for everything other than education, at least in the short term.



Q: What impact will this have in the coming year?

A: This depends on how much revenue there is.

- Will there be enough new education revenue to cover inflation and enrollment growth? And if not, how will the state budget cover that commitment contained in HB 357 since the new Public Education Economic Stabilization Restricted Account does not yet have any money in it?
- The Legislature may face the same difficult choices as in the last recession a decade ago between funding enrollment growth and inflation in the education budget or funding life-saving social and healthcare services. And if they choose to keep their promise to fund enrollment growth and inflation in the education budget in the absence of sufficient education revenues, then that commitment may come at the expense of other areas of the state budget, such as social and healthcare services for children.



HOW IS REVENUE LOOKING AT THIS POINT?

From this week's Utah Legislature
Executive Appropriations Committee (EAC) meeting:
Budget Surpluses – FY20 Actual & FY21 Projected at
<https://le.utah.gov/interim/2020/pdf/00004463.pdf>



State of Utah
Financial Highlights
Preliminary Information Subject to Audit
Fiscal Year Ended June 30, 2020



November 2020

BUDGETED RESERVES AND SURPLUS

| | General Fund | Education Fund | Combined Total |
|---|-----------------------|----------------------|-----------------------|
| Fiscal Year 2020 Surplus/(Shortfall) | \$ 14,456,000 | \$ 59,369,000 | \$ 73,825,000 |
| Budgeted Reserves for Fiscal Year 2021 | 210,614,000 | 19,173,000 | 229,787,000 |
| Net Reserves Available for Fiscal Year 2021 | <u>\$ 225,070,000</u> | <u>\$ 78,542,000</u> | <u>\$ 303,612,000</u> |



HOW IS REVENUE LOOKING AT THIS POINT?

More from this week's Utah Legislature
Executive Appropriations Committee (EAC) meeting:
FY21 revenues so far:

<https://le.utah.gov/interim/2020/pdf/00004597.pdf>

MONTHLY STATE REVENUE SNAPSHOT 11 | 2020

based on the Utah State Tax Commission Monthly Revenue Summary (Report TC-23)

| General Fund | Projected Growth Rate - November | Estimates (Annual) | Actual Growth Rate | Projected Range in Collections Through 4 Months | Actual Collections | Condition | Jan-20 | Feb-20 | Mar-20 | Apr-20 | May-20 | Jun-20 | Oct-20 | Nov-20 |
|------------------------------|-------------------------------------|-----------------------|--------------------------|--|-----------------------|--------------------|--------|--------|--------|--------|--------|--------|--------|--------|
| | (see Note 1) | | | | | | | | | | | | | |
| Sales & Use Tax | 1.3% | 10.2% | | \$822,000,000 - \$846,000,000 | \$876,717,217 | Above target range | 7.0% | 7.0% | 7.0% | 6.6% | 6.1% | 7.2% | 8.3% | 10.2% |
| All Other Sources | -4.1% | -19.5% | | \$144,000,000 - \$234,000,000 | \$179,449,423 | On target | 5.9% | 7.3% | 6.5% | 6.9% | -1.9% | 0.4% | -26.1% | -19.5% |
| Subtotal General Fund | 0.3% | 4.4% | | | \$1,056,166,640 | | 6.8% | 7.0% | 6.9% | 6.7% | 4.5% | 5.9% | 1.9% | 4.4% |
| Sales & Use Tax Set-Asides | 1.8% | 1.8% | | \$274,000,000 - \$281,000,000 | \$269,543,635 | See Note 2 | 24.8% | 25.4% | 25.9% | 23.4% | 19.1% | 17.3% | 6.6% | 1.8% |
| Education Fund/USF | | | | | | | | | | | | | | |
| Individual Income Tax | 29.7% | 53.7% | | \$2,004,000,000 - \$2,271,000,000 | \$2,053,716,644 | On target | 10.5% | 8.9% | 7.3% | -12.9% | -10.9% | -7.6% | 83.5% | 53.7% |
| Corporate Tax | 8.9% | 38.8% | | \$124,000,000 - \$181,000,000 | \$152,486,569 | On target | -12.6% | -14.1% | -10.2% | -27.2% | -28.0% | -31.1% | 55.1% | 38.8% |
| All Other Sources | -7.3% | -42.6% | | \$10,000,000 - \$15,000,000 | \$7,266,633 | Below target range | -7.9% | -12.2% | -16.8% | -10.1% | -3.0% | -9.9% | -22.3% | -42.6% |
| Subtotal Education Fund | 27.4% | 51.8% | | | \$2,213,469,846 | | 8.1% | 6.5% | 5.4% | -14.4% | -12.6% | -10.1% | 80.2% | 51.8% |
| Subtotal GF/EF | 16.8% | 32.6% | | | \$3,269,636,486 | | 7.6% | 6.7% | 6.0% | -7.1% | -6.5% | -4.5% | 48.7% | 32.6% |
| Transportation Fund | | | | | | | | | | | | | | |
| Motor Fuel Tax | 3.5% | 4.9% | | \$123,000,000 - \$133,000,000 | \$129,872,347 | On target | 1.7% | 1.8% | 1.5% | 1.1% | -2.9% | -3.3% | 7.1% | 4.9% |
| Special Fuel Tax | 0.7% | 2.7% | | \$50,000,000 - \$59,000,000 | \$57,025,040 | On target | 7.2% | 6.3% | 7.6% | 9.0% | 6.1% | 5.9% | 3.3% | 2.7% |
| Other | 3.0% | 0.5% | | \$32,000,000 - \$35,000,000 | \$32,887,000 | On target | 1.7% | 7.8% | 2.7% | 2.3% | 2.3% | 4.5% | -1.1% | 0.5% |
| Subtotal Transportation Fund | 2.7% | 3.7% | | | \$219,784,387 | | 3.1% | 3.8% | 3.2% | 3.2% | 0.1% | 0.1% | 4.7% | 3.7% |
| Total, GF/EF/USF/TF | 15.7% | 30.3% | | | \$3,489,420,873 | | 7.2% | 6.5% | 5.8% | -6.3% | -6.0% | -4.2% | 45.1% | 30.3% |

Note 1: This column is the June 2020 consensus, which assumes a \$770 million shift in income tax payments from FY 2020 to FY 2021.

Note 2: The sales tax set-aside figure includes revenue from the recently enacted Medicaid sales tax increase of 0.15%.

FY22 BUDGET WILD CARD: STUDENT ENROLLMENT

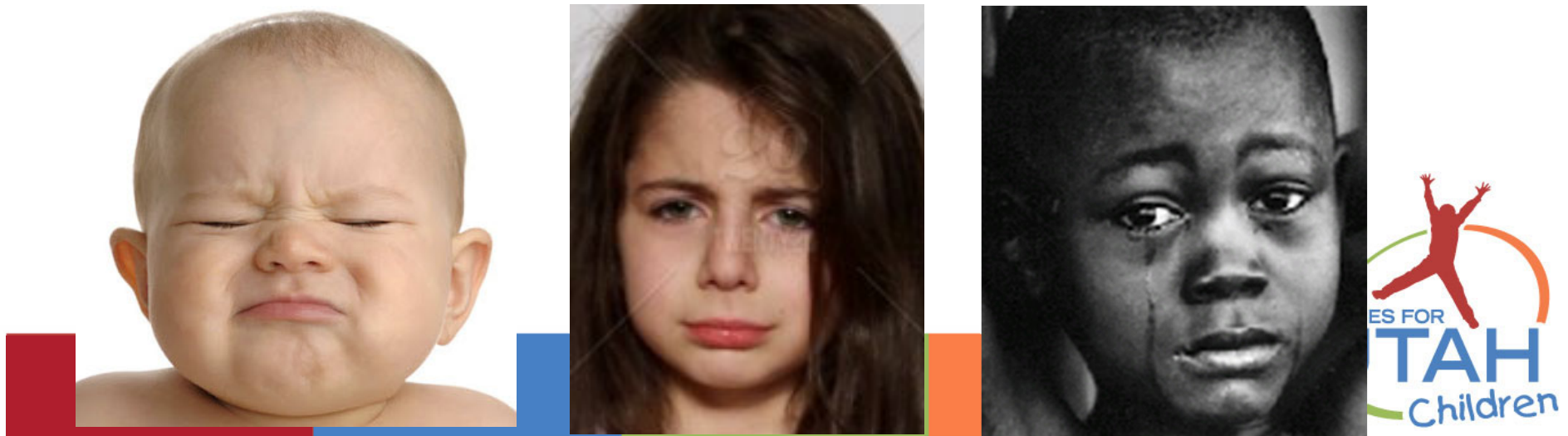


One big wild card here is the question of how the calculations will be impacted by the unprecedented drop in student enrollment that was reported this fall. Student enrollment had been projected to grow by 7,000; instead it fell by over 2,000. This drop is probably a temporary blip due to the impacts of the COVID-19 pandemic. But the Legislature may see it as an opportunity to go with a low-ball estimate of enrollment for FY22 when it meets to pass that year's budget this coming winter. Doing so would make it easier to keep its commitment to fund enrollment growth and inflation even in the current downturn.



Q: What impact will this new arrangement have in the longer term?

On the negative side, the fact that Amendment G and HB 357 provide for no new revenue streams to roll back any of what now amounts to \$2.4 billion every year in tax breaks enacted since 1995 (18% of public revenues) does not bode well for education, for social and healthcare services for Utahns in need, or for any of the many areas of state responsibility that suffer from chronic revenue shortages because of these revenue losses.

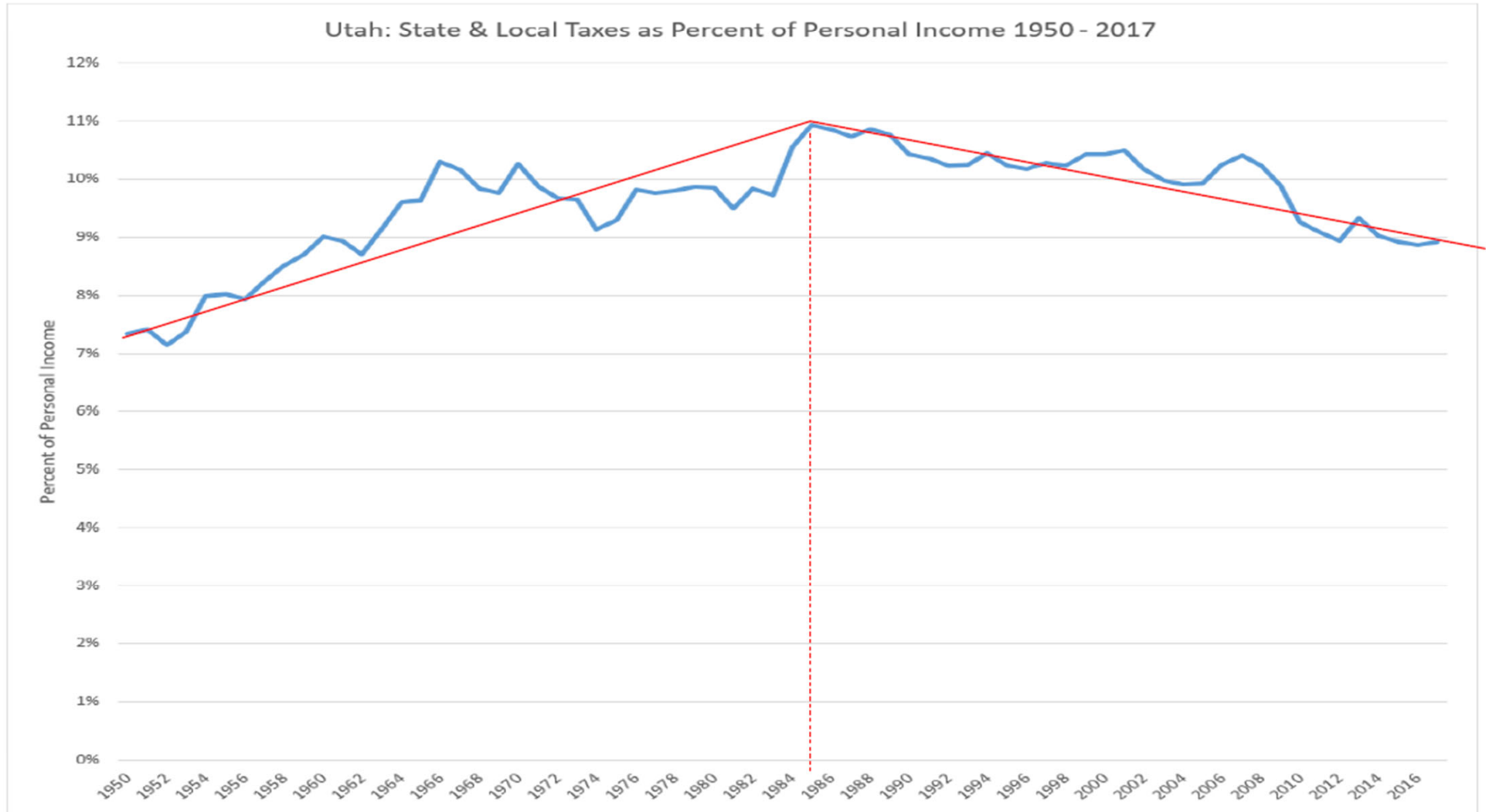


Q: What impact will this new arrangement have in the longer term?

On the positive side, the promise made by the state's leaders to always at least fund inflation and enrollment growth could potentially lead to an increased commitment of existing state resources to education than might have otherwise taken place. If that happens, and since the need for resources in other areas is not going to change, there is the possibility that members of the state's budget leadership might move closer to public opinion on the question of restoring revenues.



Overall Utah Tax Burden



Source: Utah State Tax Commissioner Larry Walters

History of Utah Tax Incidence 1995-2018 shows that the greatest share of tax cuts have gone to top earners

<https://www.utahchildren.org/newsroom/speaking-of-kids-blog/item/1029-utah-tax-history>

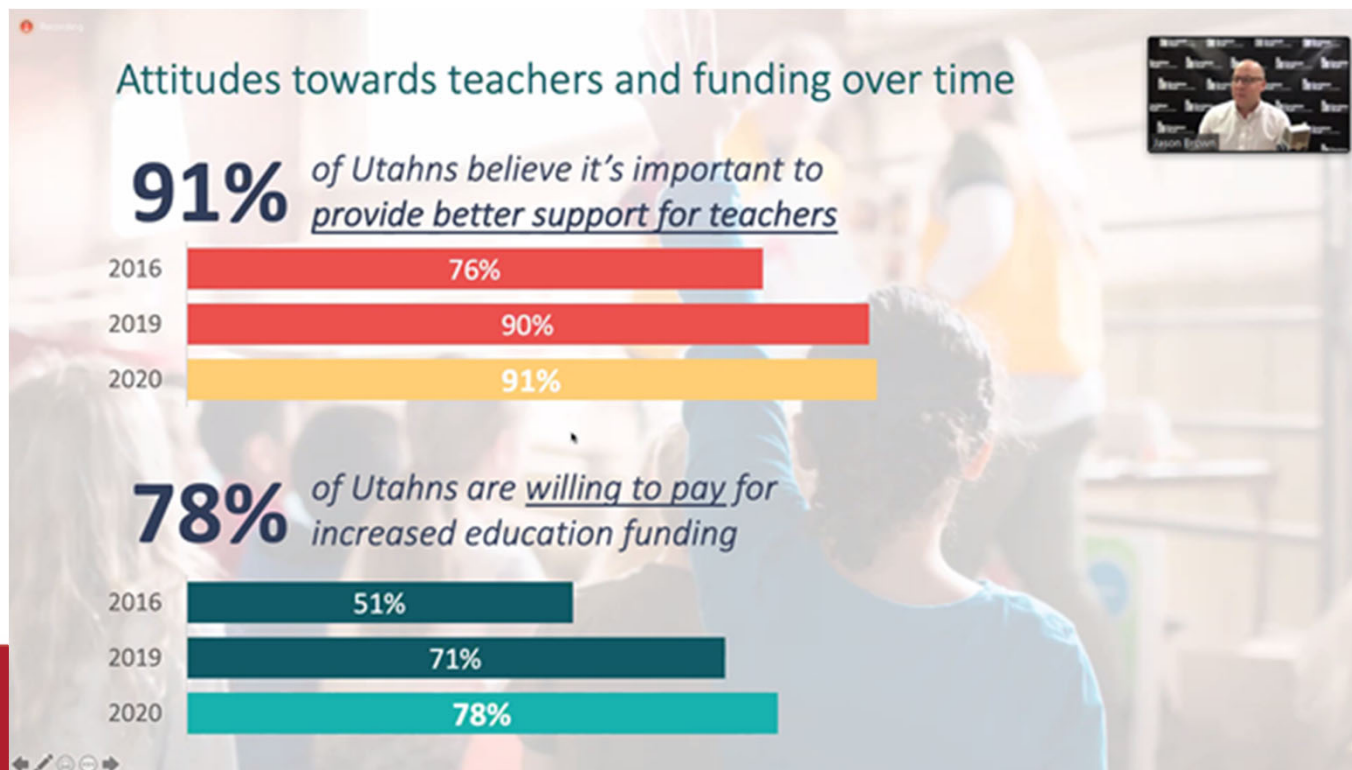
| | Lowest-income quintile | Second quintile | Middle quintile | Fourth quintile | Next 15% | Next 4% | Top 1% of filers |
|---|------------------------|-----------------|-----------------|-----------------|---|----------|------------------|
| Change in tax rate 1995-2018 (percentage points) | -4.5% | -3.5% | -2.8% | -1.7% | -1.9% | -1.4% | -1.1% |
| Change in annual tax paid (2018 \$\$) | -\$720 | -\$1,330 | -\$1,680 | -\$1,598 | -\$3,116 | -\$4,746 | -\$18,194 |
| Share of the total tax cut going to each quintile | 7.6% | 14.0% | 17.6% | 16.8% | 44.1% | | |
| Aggregate annual tax cut to each quintile (2018 \$\$) | \$180 million | \$332.5 million | \$420 million | \$399.5 million | <div> \$584m \$237m \$227m \$1.049 billion total for top quintile </div> | | |

Thus, we can see that the greatest percent-of-income tax reduction over the time period 1995-2018 went to the lowest-income Utahns, while the largest tax cut in dollar terms went to the wealthiest. The total aggregate annual tax cut by 2018 added up to \$2.38 billion. In other words, if Utahns had paid 1995 tax rates on their 2018 incomes, Utah state and local governments would have received an additional \$2.38 billion in revenue.



The people of Utah have expressed consistent -- and growing -- willingness to pay more to achieve improvements in areas of state responsibility like education, transportation, and air quality, as evidenced by the results of the following public opinion surveys this year:

- Deseret News www.deseret.com/utah/2020/3/5/21166337/income-tax-children-disabled-services-legislature
- Utah Foundation <https://www.utahfoundation.org/reports/utah-priority-no-2-state-taxes-and-spending/>
- Envision Utah www.deseret.com/utah/2020/10/17/21518160/utah-education-priority-2020-presidential-race-survey-envision



If policymaker opinion shifts to more reflect public opinion, then we will be able to say that Amendment G led to positive changes in state fiscal policy for the benefit of all of Utah's children.

If not, then we may well be in for many years of budget writers using their newfound flexibility to grant substantial increases to one area of the budget one year and another the next, making different areas of the budget compete with each other to be that year's "favored child," but leaving none better off in the long run.



Amendment G Passed -- What Happens Next?

Q & A

