

Initiative #93 Funding for Public Schools

1 **Amendment ? proposes amending the Colorado Constitution and Colorado**
2 **statutes to:**

- 3 ♦ increase funding for preschool through twelfth grade (P-12) public education;
- 4 ♦ raise the state income tax for taxpayers with taxable income over \$150,000, and
5 increase the state corporate income tax rate to fund education;
- 6 ♦ for property taxes levied by school districts, set the residential assessment rate at
7 7.0 percent and decrease the assessment rate to 24.0 percent for most
8 nonresidential property.

9 **Summary and Analysis**

10 Amendment ? increases funding for P-12 public education by raising individual and
11 corporate income taxes, and setting new assessment rates for property taxes levied by
12 school districts. This analysis discusses current P-12 education funding, the changes in
13 education funding under the measure, the income tax increase to fund those changes,
14 and the modifications to assessment rates for property taxes levied by school districts.

15 **Education Funding**

16 ***Current P-12 education funding.*** P-12 public schools in Colorado are funded
17 primarily by a combination of state and local taxes. Based on the latest available data,
18 total education funding is approximately \$9.6 billion, of which \$6.6 billion is allocated to
19 school districts through a formula in state law. Formula funding begins with the same
20 amount of funding per student, known as the base per pupil funding. The base funding
21 amount is adjusted upward depending on particular district characteristics, to determine
22 a final per pupil amount. The state constitution requires that the base funding amount
23 increase by at least the rate of inflation annually.

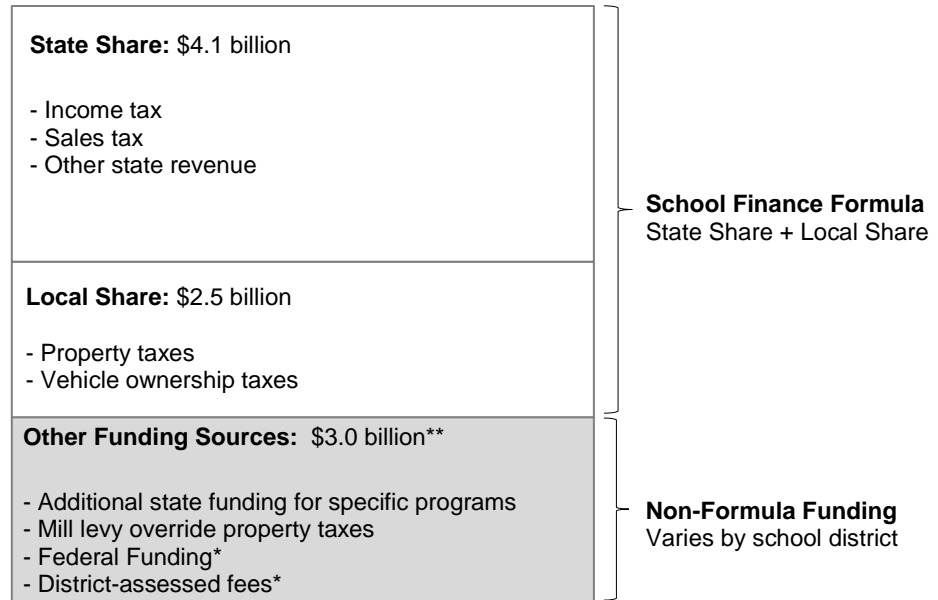
24 The state pays the difference between the amount required for each district under
25 the formula and the amount generated by local taxes. Of the \$6.6 billion distributed
26 through the formula in budget year 2017-18, the state share was \$4.1 billion and the
27 local share was \$2.5 billion.

28 One of the factors in the formula is the “budget stabilization factor”, which was
29 adopted by the legislature in 2010 as a budget balancing tool. This factor applies a
30 percentage reduction, determined by the state legislature, to the funding level required
31 by the school funding formula for each school district. This reduction is applied equally
32 across school districts, as long as the school district receives at least the amount of the
33 budget stabilization factor in state formula funding. Since its adoption, the factor has
34 reduced state funding by between \$381 million and \$1.0 billion each year. In budget
35 year 2017-18, state funding was reduced by \$822.4 million, and is projected to be
36 reduced by approximately \$672.4 million in budget year 2018-19.

1 *Other funding sources.* In addition to funding set by the formula, districts receive
 2 federal funding and district fee revenue, and additional state assistance for specific
 3 programs, such as special education, English language learning, and transportation. In
 4 budget year 2017-18, \$297.6 million in additional state funding was allocated to these
 5 specific programs, and in budget year 2015-16, the most recent data available,
 6 \$1.6 billion was received from federal sources and district fee revenue.

7 In some school districts, voters have approved property tax revenue above the
 8 amount provided through the school finance formula. These additional property taxes
 9 are called mill levy overrides, and are used for specific local education needs. As of
 10 2018, voters in 121 out of 178 districts have approved mill levy overrides, which
 11 accounts for \$1.1 billion in funding. Figure 1 summarizes all the components of
 12 education funding in Colorado.

13 **Figure 1. School District Funding, Budget Year 2017-18**



33 * Budget year 2015-16 data (most recent available)

34 ** Data will be updated as available.

35 **Education funding under the measure.** The measure requires the General
 36 Assembly to adopt a new public school finance formula as soon as possible that is
 37 transparent and easy to understand, and meets criteria related to:

- 38 • base per pupil funding;
- 39 • equitable allocation of funding among districts, based on several factors;
- 40 • adequate funding for certain specialized and early childhood programs; and
- 41 • the recruitment and retention of teachers.

42 Until the new formula is adopted, the additional revenue generated by the measure
 43 must be spent as described in Table 1.

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**Table 1. Funding Requirements Under Amendment ?
Until New Formula is Adopted**

Funding Criteria	Current Law (projected budget year 2018-19)	Under Measure For Budget Year 2019-20
Base Per-Student Funding	\$6,769 per student	\$7,300 per student
Fully Fund Kindergarten	Districts receive approximately half of the per-student funding for each kindergarten student.	Districts receive full per-student funding for each kindergarten student.
Low-income students	Districts receive funding based on the number of students whose families earn below a certain income level.	Raises the income qualifications for students to be considered low-income for funding purposes.
Special Education	\$171.6 million**	\$291.6 million*
Gifted and Talented	\$12.4 million**	22.4 million*
English Language Proficiency	\$20.3 million**	\$40.3 million*
Preschool Funding	\$112.0 million**	\$122.0 million*

3 *The measure requires the specific dollar increases above budget year 2018-19 levels.

4 ** Data will be updated as available.

5 **Tax Changes to Fund Education**

6 **Income taxes.** Amendment ? increases income taxes to provide additional revenue
7 for public education. Colorado’s current individual and corporate income tax rate is a flat
8 4.63 percent. Beginning in 2019, the measure creates a graduated individual income tax
9 rate for Colorado taxable income above \$150,000, and increases the corporate tax rate
10 by 1.37 percentage points to 6.0 percent. The measure is expected to generate
11 \$1.6 billion in budget year 2019-20, the first year of implementation. This revenue is
12 exempt from constitutional spending limits.

13 **Individual income tax.** Table 2 shows the change in individual income tax rates
14 under the measure and the percentage of filers in each tax bracket. The graduated
15 income tax rate also applies to estates, trusts, and businesses that file individually. The
16 change in individual income tax rates is expected to increase state revenue by an
17 estimated \$1.4 billion in budget year 2019-20.

18 The impact of this graduated tax increase on taxpayers will differ based on a
19 taxpayer’s taxable income. For example, a taxpayer with taxable income equal to
20 \$225,000 would be taxed at 4.63 percent for the first \$150,000 in income. The
21 subsequent \$50,000 would be taxed at a rate of 5.0 percent, and the final \$25,000 would
22 be taxed at a rate of 6.0 percent.

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Table 2. Individual Income Tax Rates Under Amendment?

Taxable income between...	...is taxed at a rate of...	Percent of filers whose maximum income is in each tax bracket
\$0 and \$150,000	4.63% (current rate)	91.8%
\$150,001 and \$200,000	5.0%	3.2%
\$200,001 and \$300,000	6.0%	2.5%
\$300,001 and \$500,000	7.0%	1.4%
Over \$500,000	8.25%	1.1%

2 Table 3 shows six examples of annual increases in individual income tax liability
 3 under the measure. On average, taxpayers with \$200,000 in taxable income will pay
 4 \$185 more per year under the measure. Those with taxable income equal to or less
 5 than \$150,000 will not experience a tax increase under the measure.

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Table 3. Example Individual Income Tax Increases Under Amendment ?

If your Colorado taxable income is...	The measure will increase your annual income tax liability* by...
\$65,000	\$0
\$100,000	\$0
\$200,000	\$185
\$250,000	\$870
\$400,000	\$4,425
\$1.0 million	\$26,145

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* Actual tax liability may vary based on modifications to taxable income.

8 **Corporate income tax.** The measure increases the corporate income tax rate from
 9 4.63 percent to 6.0 percent, a 1.37 percentage point increase. Businesses that pay
 10 corporate income tax are typically large businesses that operate across multiple states
 11 or countries. In contrast to the measure’s individual tax rate changes, the increase in the
 12 corporate income tax rate is not a graduated tax rate. The change is expected to
 13 generate \$179.9 million in budget year 2019-20. On average, the approximately 15,000
 14 corporate income taxpayers with an income tax liability are expected to pay an additional
 15 \$11,085 per year under the measure.

16 **Property taxes.** Property taxes are paid on a portion of a property's value,
 17 determined by an assessment rate. The measure sets the assessment rate for property
 18 taxes that fund school districts at 7.0 percent for residential property and 24.0 percent for
 19 most nonresidential property. The measure does not impact the assessment rates for
 20 mines and lands producing oil and gas, nor does it impact assessment rates for property
 21 taxes levied by other local governments.

22 **Taxpayer impacts.** The measure will decrease school district property taxes for most
 23 nonresidential property by reducing the nonresidential assessment rate from
 24 29.0 percent to 24.0 percent. For residential properties, the measure is expected to

1 increase property taxes in 2019. The current residential assessment rate is 7.2 percent;
2 however, it is projected to drop to 6.1 percent in 2019. As a result, setting the residential
3 assessment rate at 7.0 percent increases residential property taxes above what is
4 projected in 2019 and beyond.

5 The impact on individual taxpayers will vary based on several factors, including the
6 school finance formula mill levy of the local school district, the actual value of the
7 property, the 2019 residential assessment rate without the measure, and whether any
8 mill levy overrides have been approved by the voters in the school district. Overall,
9 property tax revenue for school districts is currently projected to decrease by
10 \$62.4 million statewide in 2019 as a result of the measure.

11 *School finance implications.* The impact of setting the assessment rates means less
12 property tax revenue in 2019, so the state will have to increase its share of funding in
13 order to meet the formula funding, as determined by the state legislature. The additional
14 revenue generated by the income tax increase will both cover the increased state share,
15 and provide additional funding for schools.

16 The assessment rates established by the measure also apply to mill levy overrides.
17 The impact of the measure on this revenue will vary by district, depending on how the
18 mill levy override ballot question was put to voters. In 2019, school districts whose
19 voters have approved a specific mill levy override rate will receive less revenue than
20 initially anticipated. School districts whose voters have approved a specific amount of
21 revenue have a floating mill levy override rate, and will not see a change in revenue
22 generated from the funding source.

23 Oversight

24 Amendment ? requires the Colorado Department of Education, within five years of
25 the measure’s implementation, to review how the additional revenue is spent and identify
26 best practices for promoting continuous student achievement. In addition, the state
27 legislature, within ten years of the implementation of the new school finance formula, is
28 required to review the formula and ensure that it meets the goals of the measure.

*For information on those issue committees that support or oppose the measures on the ballot at the **November 6, 2018**, election, go to the Colorado Secretary of State's elections center web site hyperlink for ballot and initiative information:*

<http://www.sos.state.co.us/pubs/elections/Initiatives/InitiativesHome.html>

29 Arguments For

30 1) Colorado ranks in the bottom 25 percent in the country in total education funding
31 per student. From its implementation in budget year 2010-11 through budget
32 year 2018-19, the budget stabilization factor has cut funding by \$7.2 billion
33 compared to the amount required by the school finance formula. As a result,

1 school districts have to make difficult choices, such as cutting transportation,
2 limiting teacher wages, increasing class sizes, or eliminating art, music, and
3 physical education classes. Approximately half of Colorado school districts are
4 currently operating on four-day weeks. The state needs a dedicated, sustainable
5 source of revenue to adequately and equitably fund public education.

- 6 2) The Colorado Constitution requires a “thorough and uniform” public education
7 system. Currently, voters in school districts with high property values can choose
8 to raise additional property taxes to offset state budget cuts. In contrast, school
9 districts with lower property values are not able to generate the same revenue
10 and feel the full effects of the budget stabilization factor. This results in large
11 funding disparities among school districts. The additional revenue raised by the
12 measure and the specified funding criteria help remedy these inequities and
13 provide a higher funding levels for all districts.
- 14 3) One of the government’s most important functions is to provide children with a
15 high-quality public education. The money generated by the measure will allow
16 districts to provide a safe learning environment, recruit and retain highly qualified
17 teachers, improve access to early childhood education programs, and strengthen
18 science and math, vocational, and literacy programs. These are key investments
19 in a successful public education system, which will ensure a strong Colorado
20 economy that is capable of competing in today’s global market.

21 **Arguments Against**

- 22 1) The measure imposes a tax increase without any guarantee of increased
23 academic achievement. State policy should focus on education reform, rather
24 than generating new revenue for schools, in order to improve student outcomes.
25 Colorado should find efficiencies within the current system and reprioritize
26 existing revenue in order to meet current education funding requirements.
- 27 2) The measure complicates already complicated income and property tax systems.
28 By creating a tiered income tax structure and multiple assessed values for each
29 residential property, the measure will lead to confusion among taxpayers and will
30 establish a separate property tax system for public education. Education does
31 not need its own taxing system, which will further complicate tax administration
32 across state and local governments.
- 33 3) The measure increases the state income tax rate for some individual taxpayers,
34 and for corporations. As a result, businesses will have less money to invest in
35 their workers and individuals will have less money to spend, save, and invest.
36 This could negatively impact the economy, and Colorado could have a harder
37 time attracting or retaining businesses, putting it at a competitive disadvantage
38 compared to other states.

39 **Estimate of Fiscal Impact**

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41 *(Please note: A summary of the fiscal impact will be included in this space in the*
42 *second draft of the analysis. A final fiscal impact statement will be prepared and placed*
43 *on the General Assembly's website when the final blue book is sent to voters.)*