



**Colorado
Legislative
Council
Staff**

SB17-029

FISCAL NOTE

FISCAL IMPACT: State Local Statutory Public Entity Conditional No Fiscal Impact

Drafting Number: LLS 17-0549
Prime Sponsor(s): Sen. Kerr
Rep. Pettersen

Date: January 19, 2017
Bill Status: Senate SVMA
Fiscal Analyst: Josh Abram (303-866-3561)

BILL TOPIC: FUNDING FOR FULL-DAY KINDERGARTEN

Fiscal Impact Summary	FY 2017-2018	FY 2018-2019
State Revenue		
General Fund - conditional*	\$5.2 million	\$10.5 million
State Transfers		
General Fund - conditional*	(\$165.3 million)	(\$174.9 million)
SB 228 transfers to CCF - conditional*	\$110.2 million	\$116.6 million
SB 228 transfers to HUTF - conditional*	\$55.1 million	\$58.3 million
State Expenditures		
General Fund	\$36.8 million	\$36.8 million
General Fund - conditional*	up to \$256.5 million [†]	up to \$287.2 million
TABOR Impact - conditional*	(\$279.4 million)	(\$287.2 million)
Appropriation Required: \$36,807,998 General Fund - Colorado Department of Education (FY 2017-18).		
Future Year Impacts: Ongoing revenue, transfer, and expenditure impacts.		

* These impacts are conditional, dependent on a vote of the electorate to retain and spend revenue in excess of constitutional limits.

[†] The total TABOR refund obligation of \$279.4 million includes a \$22.9 million accounting adjustment for under refunds of previous TABOR surpluses. This amount is encumbered for FY 2017-18, leaving approximately \$256.3 million available for School Finance (\$279.4 million - \$22.9 million = \$256.5 million).

Summary of Legislation

Under current law, students who are enrolled in kindergarten are counted as half-day students for purposes of school finance, and each school district receives an additional .08 of an enrolled kindergarten student, for a total funding factor of 0.58. Beginning with FY 2017-18, this bill increases the factor from 0.58 to 0.65.

The bill states the intent of the General Assembly to increase funding for full day kindergarten (full day K) by specific dollar amounts beginning annually with FY 2018-19, such that full day kindergarten will be fully funded beginning with FY 2023-24.

Subject to a vote of the people, the bill refers a measure to the 2017 state ballot authorizing the state to retain and spend all additional excess revenue over the constitutionally allowed limit. If the voters approve, the General Assembly is required to appropriate the additional revenue first to pay for full day K, and second to fund school district total program under the School Finance Act.

Legislative Council is required to prepare an annual report concerning how the retained revenue was spent in each year.

Background

According to data collected by the Colorado Department of Education (CDE), 171 out of 178 school districts currently offer full-day K, but pay for the program in different ways. Some districts may use operating revenue from total program funding, a general mill levy override, or other funds available to the district; some districts have a fee-based program; and three districts (Brush, Steamboat Springs, and Summit) have a dedicated mill levy for full-day K.

The following school districts do not offer full-day K: Bennett 29J, Pritchett RE-3, Big Sandy 100J, Karval RE-23, Weldon Valley RE-20(J), Silverton 1, and Lone Star 101.

State Revenue

General Fund revenue — conditional impact. Should voters approve this measure, General Fund revenue will increase by \$5.2 million in FY 2016-17, and by \$10.5 million in FY 2017-18.

State law allows a portion of the *gross conservation easement tax credit* to be refundable when the state incurs a TABOR surplus.¹ In practice, this allows the credit to be partially refundable for tax years during which a TABOR surplus is refunded. The impact of this is expected to be a refund of \$10.5 million in tax years 2018 and 2019, or \$5.2 million in FY 2017-18 and \$10.5 million in FY 2018-19 on an accrual accounting basis. This bill, with voter approval, allows the state to retain and spend revenue in excess of its constitutional revenue limit, thereby eliminating this tax refund.

State Transfers

SB 09-228 Transfers — conditional impact. Senate Bill 09-228 requires transfers from the General Fund to the Highway Users Tax Fund (HUTF) and the Capital Construction Fund (CCF) to occur each year through FY 2019-20. When the TABOR surplus is between 1.0 percent and 3.0 percent of General Fund revenue, the transfers are cut in half; when the TABOR surplus exceeds 3.0 percent the transfers are eliminated for that year.

Should voters approve the referred measure, it will eliminate the TABOR surplus beginning in FY 2017-18, restoring the transfers in full. This will increase the amount of money transferred to the HUTF by \$110.2 million and \$116.6 million and to the CCF by \$55.1 million and \$58.3 million, respectively, in FY 2017-18 and FY 2018-19.

1. Section 39-22-522 (5) (b), C.R.S.

TABOR Impact

TABOR Refunds — conditional impact. Should voters approve this measure, refunds of money in excess of the TABOR Limit will not occur beginning in FY 2017-18.

TABOR requires revenue collected in excess of the TABOR limit to be refunded to taxpayers.² Under current law, TABOR refunds of \$279.4 million and \$287.2 million are expected to occur in tax years 2018 and 2019, respectively, to refund excess revenue collected in FYs 2017-18 and 2018-19. Table 1 shows the projected impact on the mechanisms used to refund the TABOR surplus in current law. Revenue is refunded in the year following the year in which it is collected.

Table 1. Impact of SB 17-029 on TABOR Refund Mechanisms		
<i>Millions of Dollars</i>		
	FY 2017-18 Surplus FY 2018-19 Refund Tax Year 2018	FY 2018-19 Surplus FY 2019-20 Refund Tax Year 2019
Current Law		
TABOR Refund Obligation	\$279.4	\$287.2
<i>Income Tax Rate Reduction</i>	\$229.0	\$242.7
<i>Sales Tax Refund</i>	\$50.4	\$44.5
Senate Bill 17-029		
TABOR Refund Obligation	(\$279.4)	(\$287.2)
<i>Income Tax Rate Reduction</i>	(\$229.0)	(\$242.7)
<i>Sales Tax Refund</i>	(\$50.4)	(\$44.5)

State Expenditures

For FY 2017-18 and subsequent years, this bill increases expenditures for school finance by \$36.8 million. Beginning FY 2018-19, and only if approved by voters, this referred measure increases state expenditures for school finance by up to \$256.5 million.

Increase kindergarten factor in school finance — state fiscal impact. By raising the factor by which school districts count their kindergarten students from .58 to .65, the cost of the state share of school finance will increase by about \$36.8 million for FY 2017-18.

Retain and spend revenue over the TABOR limit — conditional fiscal impact. The bill refers a measure to the state ballot to request voter approval for the state to retain revenue in excess of its constitutional revenue limit, otherwise known as the "Taxpayer's Bill of Rights Limit" or the TABOR Limit.³ If approved by voters, the General Assembly is required to use the retained revenue to pay for full-day K. The surplus amount after paying for full-day K must be appropriated to fund school district total program under the School Finance Act. Since this expense is only required if the voters approve the referred measure, this impact is conditional.

2. Colo. Const. art. X, § 20 (7) (d).

3. Colo. Const. art. X, § 20.

For FY 2017-18, the TABOR surplus is estimated at \$279.4 million; however, of this amount, \$22.9 million is set aside in the General Fund as an accounting adjustment for under refunds of previous TABOR surpluses, leaving about \$256.5 million available for appropriation to School Finance in FY 2017-18. For FY 2018-19, the TABOR surplus is estimated at \$287.2 million.

Election expenditure impact (existing appropriations). This bill includes a referred measure that will appear before voters at the November 2017 general election. Although no additional appropriation is required in this bill, certain election costs are incurred by the state when ballot measures are referred to voters. These costs, paid using existing appropriations, are in two areas. First, current law requires the state to reimburse counties for costs incurred conducting a ballot measure election, paid from the Department of State Cash Fund. Second, the text and title of the measure must be published in one legal newspaper per county and an analysis of the measure must be included in the Ballot Information Booklet (Blue Book) mailed to all registered voter households, paid from the Ballot Analysis Revolving Fund. Table 1 estimates the costs for a single ballot measure in 2017. These costs will increase by approximately \$100,000 per measure beyond this base amount for any additional referred or initiated measures placed on the ballot.

Cost Component	Amount
County Reimbursement for Statewide Ballot Measures	\$2,700,000
Ballot Information Booklet (Blue Book) & Newspaper Publication	\$670,000
TOTAL	\$3,370,000

School District Impact

For FY 2017-18, this bill increases the local share of school finance by \$567,791 for a single school district. By changing the kindergarten factor from .58 to .65, and therefore increasing the funded pupil count, the bill increases total program and the required mill levy for Cherry Creek School District, one of the four districts in the state that are not exempt from constitutional spending limits. Thus, this bill provides Cherry Creek School District with an additional \$567,791 in the local share of school finance.

In addition to providing more per-pupil revenue for kindergarten students, school districts will have increased expenses to provide full-day K, especially those not currently offering a full-day program. This increase may include program costs (teachers, aides, transportation, etc.), and capital costs to expand classroom capacity allowing them to expand the program.

Effective Date

The bill takes effect upon signature of the Governor, or upon becoming law without his signature.

State Appropriations

For FY 2017-18, this bill requires a General Fund appropriation of \$36,807,998 to the Colorado Department of Education.

State and Local Government Contacts

Education