Initiative #93
Funding for Public Schools

Amendment ? proposes amending the Colorado Constitution and Colorado statutes to:

- ♦ increase funding for preschool through twelfth grade (P-12) public education;
- ♦ raise the state individual income tax rate for taxpayers with taxable income over $150,000, and increase the state corporate income tax rate to provide additional funding for education; and
- ♦ for property taxes levied by school districts, permanently set the assessment rate at 7.0 percent for residential properties and decrease and permanently set the assessment rate at 24.0 percent for most nonresidential properties.

Summary and Analysis

Amendment ? increases funding for P-12 public education by raising the individual income tax rate for some individuals, increasing the corporate income tax rate, and setting new assessment rates for property taxes levied by school districts. This analysis discusses current P-12 education funding, the increase in education funding under the measure, and changes to the income and property taxes that fund the increase.

Education Funding

Current P-12 education funding. P-12 public schools in Colorado are funded through a combination of state, local, and federal sources. Based on the latest available data, total education funding is approximately $9.7 billion, of which $6.6 billion is allocated to school districts through a formula in state law. Formula funding begins with the same amount of funding per student, known as the base per pupil funding, which is constitutionally required to increase by at least the rate of inflation annually. In budget year 2017-18, the base per pupil amount was $6,546. The base funding amount is then adjusted by the factors described below to determine a final, district-specific per pupil amount. Final per pupil amounts ranged from $7,236 to $16,247 in budget year 2017-18. The factors include the:

- **district size factor**, which provides additional funding based on student enrollment, with smaller districts receiving more funding;
- **cost-of-living factor**, which provides additional funding based on the cost of living in a given district relative to other districts;
- **at-risk factor**, which provides additional funding based on the number of low-income and non-English speaking students; and
- **budget stabilization factor**, which was adopted in 2010 as a budget balancing tool and applies an equal percentage reduction in formula funding across all school districts.

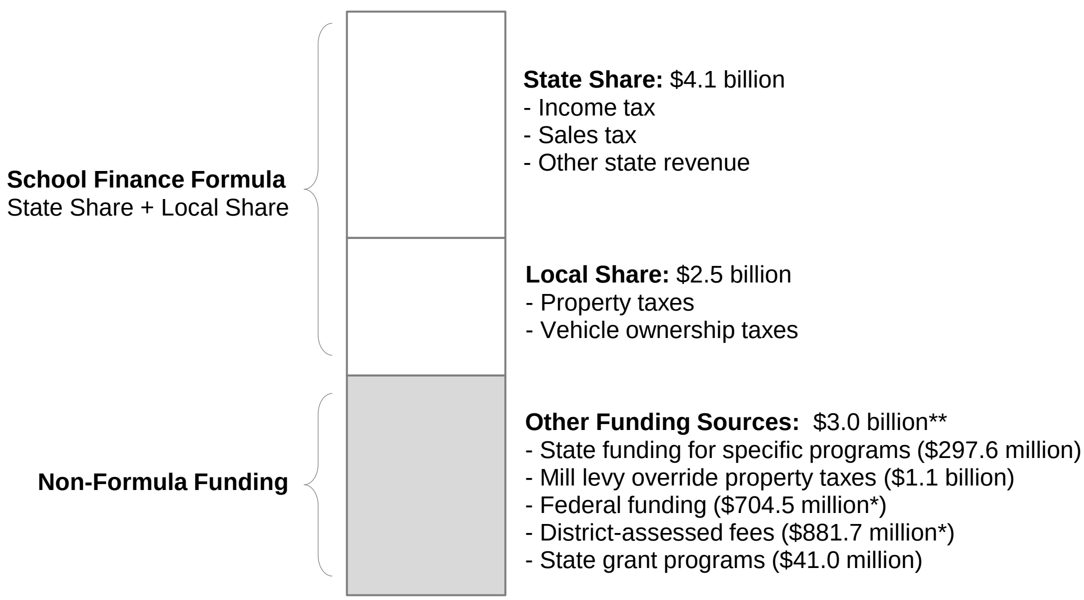
Formula funding sources. Formula funding is provided by state and local sources. The state pays for the portion of the formula that school districts are unable to fund with their local tax revenue. Of the $6.6 billion distributed through the formula in budget year 2017-18, the state share was $4.1 billion and the local share was $2.5 billion.

Other funding sources. In addition to funding set by the formula, districts receive additional state assistance for specific programs, such as special education, English language learning, gifted and talented, vocational programs, and transportation. In budget year 2017-18, $297.6 million in additional state funding was allocated to these specific programs. In addition, the state offers some competitive grant programs for districts in areas such as literacy, bullying prevention, and health and wellness.

Districts also receive federal funding for certain programs and students, including low-income students, children with disabilities, and food and nutrition programs, and may collect district-assessed fee revenue for textbooks, food services, athletics and activities, and from course-specific fees. This revenue varies by district.

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

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



** Budget year 2015-16 data (most recent available).*
*** Data will be updated as available.*

Education funding under the measure. The measure encourages the General Assembly to adopt a new public school finance act containing a formula that distributes funding to public schools. The formula must be transparent and easy to understand, and meet criteria related to:

- an increase in base per pupil funding;
- equitable allocation of funding among districts, based on certain student and district characteristics;
- adequate funding for certain specialized and early childhood programs; and
- the recruitment and retention of teachers.

Until a new act is adopted, the additional revenue generated by the measure must be spent as described in Table 1. The requirements in Table 1 result in an $866 million spending increase compared with current year spending.

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	$176.1 million	$296.1 million (an increase of $120 million)
Gifted and Talented	$12.5 million	$22.5 million (an increase of $10 million)
English Language Proficiency	$21.6 million	$41.6 million (an increase of $20 million)
Pre-school Early Education	$121.0 million	$131.0 million (an increase of $10 million)

Tax Changes to Fund Education

Income taxes. Amendment ? increases income tax rates to provide additional revenue for public education. Colorado's current individual and corporate income tax rate is a flat 4.63 percent. Beginning in 2019, the measure creates a graduated individual income tax rate for taxable income above $150,000, and increases the corporate tax rate from 4.63 percent to 6.0 percent. The measure is expected to generate $1.6 billion in budget year 2019-20, the first year of implementation. This revenue is exempt from constitutional spending limits.

Individual income tax. Table 2 shows the change in individual income tax rates under the measure and the percentage of filers in each tax bracket. The income tax increase will impact 8.2 percent of individual taxpayers. The graduated income tax rate also applies to estates, trusts, and businesses that file individually. The change in individual income tax rates is expected to increase state revenue by an estimated $1.4 billion in budget year 2019-20.

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%

Those with taxable income equal to or less than $150,000 will not experience an income tax increase under the measure. The impact of the graduated tax increase on taxpayers with higher earnings will differ based on a taxpayer's taxable income. For example, a taxpayer with taxable income equal to $250,000 would be taxed at 4.63 percent for the first $150,000 in income. The subsequent $50,000 would be taxed at a rate of 5.0 percent, and the final $50,000 would be taxed at a rate of 6.0 percent. Table 3 shows examples of average annual increases in individual income tax liability under the measure.

Table 3. Example Individual Income Tax Increases Under Amendment ?

If your taxable income is…	The measure will increase your annual income tax liability* by…
less than $150,000	$0
$200,000	$185
$250,000	$870
$400,000	$4,425
$1.0 million	$26,145

** Actual tax liability may vary based on state income tax credits.*

Corporate income tax. The measure increases the corporate income tax rate from 4.63 percent to 6.0 percent. Businesses that pay corporate income tax are typically large businesses that operate across multiple states or countries. In contrast to the measure's individual tax rate changes, the increase in the corporate income tax rate is not a graduated tax rate and applies to all corporate taxpayers. The change is expected to generate $229.4 million in budget year 2019-20. On average, the approximately 15,000 corporate income taxpayers with an income tax liability are expected to pay an additional $14,139 per year under the measure.

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

Taxpayer impacts. The measure will decrease school district property taxes for most nonresidential property by reducing the nonresidential assessment rate from 29.0 percent to 24.0 percent. For residential properties, the current assessment rate is 7.2 percent; however, based on the December 2017 Legislative Council Staff Economic Forecast, it is projected to drop to 6.1 percent in 2019 and may fall further in the future. As a result, setting the residential assessment rate at 7.0 percent increases residential property taxes above what is currently projected for 2019 and subsequent years.

The impact on individual taxpayers will vary significantly based on several factors, including the school finance formula mill levy rate for the local school district, the actual value of the property, the 2019 residential assessment rate without the measure, and whether and what type of mill levy overrides have been approved by the voters in the school district. For specific information about the impact on taxpayers in a particular school district, please visit *(link to a school district-level map will be added here in third draft)*.

In 2019, the measure is projected to decrease school district property taxes collected from nonresidential properties by $317.8 million and increase school district property taxes collected from residential properties by $255.3 million, resulting in a net decrease of $62.4 million in school district revenue. This decrease in local school district revenue in 2019 will be replaced by a portion of the additional income tax revenue generated by the measure. In future years, local property tax revenue for school districts will only be impacted by changes in property values and mill levy rates, not by a changing residential assessment rate.

Reporting Requirements

Amendment ? requires the Colorado Department of Education, within five years of the measure's implementation, to review how the additional revenue is spent and identify best practices for promoting continuous student achievement. In addition, the state legislature, within ten years of the implementation of the new school finance formula, is 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

Arguments For

1) Colorado significantly cut P-12 public education funding during the Great Recession, and funding levels have not recovered, even though Colorado has one of the healthiest economies in the nation. Since the 2010-11 budget year, the budget stabilization factor has cut education funding by a total of $7.2 billion. As a result, school districts have had to make difficult choices, such as limiting teacher salaries, increasing class sizes, limiting mental health and counseling services for students, and narrowing course offerings. Further, approximately half of Colorado school districts are currently operating on four-day weeks. The state needs a dedicated, sustainable source of revenue to adequately and equitably fund public education.

2) The current school funding system has created significant disparities among school districts. Currently, voters in school districts with high property values can choose to raise additional property taxes to offset state budget cuts. In contrast, school districts with lower property values are not able to generate the same revenue and feel the full effects of the budget stabilization factor. This results in large funding disparities among school districts. The additional revenue raised by the measure and the specified funding criteria help remedy these inequities and provide higher funding levels for all districts.

3) One of the government's most important functions is to provide children with a high-quality public education. The money generated by the measure will allow districts to, recruit and retain highly qualified teachers, improve access to early childhood education programs, strengthen science and math, vocational, and literacy programs, and provide a safe learning environment for all students. These are key investments in a successful public education system, which will help ensure a strong Colorado economy that is capable of competing in today's global market.

4) Constitutional constraints have suppressed local property tax revenue in many areas and led to greater pressure on the state general operating budget to meet required education funding levels. Permanently stabilizing the local share of required school formula funding and creating a dedicated source of state revenue for education provide additional flexibility for the state to use more of its general operating budget on other core programs, such as transportation, public safety, and health care.

Arguments Against

1) The measure imposes a tax increase without any guarantee of increased academic achievement. A focus on education reform rather than new revenue is more likely to improve student outcomes. Policymakers should be encouraged to find efficiencies within the current system and to reprioritize existing revenue in order to meet current education funding requirements. Since the 2012-13 budget year, total formula funding has increased by between 1.3 percent and 7.4 percent annually, and just this year, the legislature increased school formula funding by over $150 million without a tax increase.

2) The measure complicates an already complicated property tax system. By creating one assessed value for school districts and another assessed value for all other local taxing entities, the measure will lead to confusion among taxpayers and further complicate tax administration for state and local governments. Further, this complicated system ultimately represents an additional burden on homeowners, providing a tax cut for businesses at the expense of homeowners.

3) The measure increases the state income tax rate for small businesses, corporations, and some individuals. As a result, businesses will have less money to invest in their workers and individuals will have less money to spend, save, and invest. This will negatively impact the economy, and Colorado may have a harder time attracting or retaining businesses, putting it at a competitive disadvantage compared to other states.

4) The measure does not allow the state legislature to adjust the income tax thresholds to account for inflation. As a result, over time, more taxpayers will end up in the higher tax brackets as their incomes are adjusted for inflation. More people paying a higher tax

rate results in additional revenue, which the measure requires to be spent only on education. This prevents budget flexibility and hinders the state's ability to address other critical needs such as transportation and health care. Finally, the additional revenue generated by the measure is exempt from the state's constitutional spending limit, thereby removing an important protection for taxpayers.

Estimate of Fiscal Impact

State revenue. The measure increases state revenue by $750.9 million in budget year 2018-19 (half-year impact) and $1.6 billion in budget year 2019-20. This amount is from individual income taxes and corporate income taxes. This revenue is exempt from constitutional spending limits and must be used for educational purposes identified in the measure.

State expenditures. The measure increases state expenditures by $174,933 and 1.6 FTE in budget year 2018-19 and by at least $866.1 million and 1.3 FTE beginning in budget year 2019-20. Expenditure increases in budget year 2018-19 are for administrative costs and increases in budget year 2019-20 include both administrative expenses and the new expenditures for education. Additional administrative expenses may occur in future years to comply with the measure's reporting requirements.

School district impact. The measure increases school district revenue by a minimum of $866 million and up to a net $1.5 billion in budget year 2019-20, the first full fiscal year the measure is implemented. For the potential $1.5 billion, school districts will receive $1.6 billion in state revenue, and see a $62.4 million decrease in revenue from property taxes. The allocation of this revenue to districts is dependent on several factors and has not been estimated; however, a minimum of $866 million must be distributed in budget year 2019-20 for the purposes specified in the measure.

Local government impact. The measure increases costs for county assessors and treasurers offices to update computer and data systems related to the changes in assessment rates. Specific costs will vary among counties.