



**Colorado  
Legislative  
Council  
Staff**

**Amendment 73**

**FISCAL IMPACT  
STATEMENT**

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**LCS TITLE:** FUNDING FOR PUBLIC SCHOOLS

<b>Fiscal Impact Summary</b>	<b>FY 2018-2019</b>	<b>FY 2019-2020</b>
<b>State Revenue</b>	<b><u>\$750.9 million</u></b>	<b><u>\$1.6 billion</u></b>
Quality Public Education Fund	\$750.9 million	\$1.6 billion
<b>State Expenditures</b>	<b><u>\$174,933</u></b>	<b><u>at least \$866.1 million</u></b>
General Fund	\$174,933	\$85,843
Quality Public Education Fund		at least \$866 million

**Summary of Measure**

The measure makes changes to the Colorado Constitution and state law related to funding for public education.

**Quality Public Education Fund.** The measure creates the Quality Public Education Fund (fund) in the Colorado Constitution. Money in the fund is to be used to support and enhance the quality of preschool through twelfth grade (P-12) public education beginning in FY 2019-20. The fund will contain revenue from a proposed income tax increase, discussed below. Money in the fund is exempt from the TABOR revenue limit and must be used to supplement General Fund appropriations for P-12 public education as of the measure's effective date, adjusted each year for inflation up to 5 percent.

**New school finance act.** The measure encourages the General Assembly to enact, as expeditiously as possible, a new public school finance law that meets certain criteria. Criteria relate to base per pupil funding; equitable allocation of funding among districts, based on several factors; adequate funding for certain specialized programs and early childhood programs; recruitment and retention of teachers; and the creation of a model that is transparent and easy to understand. Once legislation meeting these criteria has been enacted, the General Assembly may utilize money in the fund to implement the new school finance act.

**Education spending requirements.** Beginning in FY 2019-20 and until a new public school finance law that meets the criteria is enacted by the General Assembly, money in the fund must be used to:

- increase the statewide base per pupil funding for P-12 public education to \$7,300;
- increase state funding for the following programs by at least the following specified amounts over FY 2018-19 levels:
  - special education by \$120 million;
  - gifted and talented programs by \$10 million;
  - English language proficiency programs by \$20 million; and
  - preschool funding by \$10 million;

The above increases are to be adjusted for inflation each year beginning in FY 2020-21.

In addition, the measure expands the number of kindergarten and at-risk students that receive funding through the state's P-12 funding formula. Specifically, the measure requires that:

- at-risk funding include students qualifying for reduced price lunch; and
- full day kindergarten funding be increased from 0.58 percent to 1.0 per full time equivalent student.

**Income tax.** The measure creates an exception to the current law requirement that any new income tax law change require taxable net income to be taxed at a single rate. Specifically, the measure allows multiple tax rates to apply to individuals, trusts, estates, and corporations if the tax increase is approved by voters for the funding of P-12 public education. The measure then increases state personal income tax rates on federal taxable income by the following graduated rates, beginning in tax year 2019:

- 0.37 percent for income between \$150,000 and \$200,000;
- 1.37 percent for income between \$200,000 and \$300,000;
- 2.37 percent for income between \$300,000 and \$500,000; and
- 3.62 percent for income above \$500,000.

The measure also increases the state corporate income tax rate for domestic C corporations and foreign C corporations doing business in Colorado by 1.37 percent beginning in tax year 2019. All revenue from this individual and corporate income tax increase is deposited in the Quality Public Education Fund and may be retained and spent without further voter approval.

**Assessment rate.** Currently, the residential assessment rate is 7.2 percent and all other taxable property, excluding property and leases for mines and producing oil and gas, is assessed at 29.0 percent for all local government entities. Beginning January 1, 2019, the measure specifies that for property taxes levied by school districts only, the residential assessment rate is 7.0 percent, and the assessment rate for most non-residential property is 24.0 percent.

**Reporting requirements.** Within five years of when the money is first appropriated from the fund, the Colorado Department of Education (CDE) must contract for a study that includes how money from the fund was spent, and determine best practices for continuous improvement in student achievement. In addition, school districts that receive money from the fund must make certain information available on its website, including its mission, and current budget, audit, uniform improvement plan, and student achievement scores.

Within ten years of implementation of the new act and every five years thereafter, the General Assembly must conduct a review of the new school finance act to determine if it enables all school districts to meet academic standards and performance requirements, as well as make any necessary changes to the new act.

## State Revenue

The measure increases state revenue by \$750.9 million in FY 2018-19 (half-year impact) and \$1.6 billion in FY 2019-20, deposited in the newly created Quality Public Education Fund. This amount is expected to grow over time with growth in population, income, and business earnings, and includes approximately \$0.6 billion from individual income taxes and \$112.72 million from corporate income taxes in FY 2018-19. The revenue estimate for FY 2019-20 includes

approximately \$1.4 billion from individual income tax and \$229.44 million from corporate income tax. This revenue is exempt from TABOR and must be used for purposes identified in the measure. This estimate incorporates the federal Tax Cuts and Jobs Act.

**Individual income tax.** The measure creates graduated income tax rates for taxable income above \$150,000. Graduated rates are increased above the current 4.63 percent by between 0.37 percent and 3.62 percent, depending on the amount of taxable income, as shown in Table 1. For example, a taxpayer with taxable income equal to \$250,000 would be taxed at the current rate of 4.63 percent for the first \$150,000 in income. The subsequent \$50,000 would be taxed at a rate of 5 percent, and the final \$50,000 would be taxed at a rate of 6.0 percent.

<b>Taxable income* between...</b>	<b>...is taxed at a marginal rate of...</b>	<b>Percent of Filers whose maximum income is in each tax bracket</b>
\$0 and \$150,000	4.63%	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%

\* These taxable income tiers apply to single, head of household, and joint filers.

Under current law, revenue from individual income taxes is expected to be \$8.0 billion in FY 2018-19 and \$8.4 billion in FY 2019-20, based on the Legislative Council Staff June 2018 forecast. The measure is expected to increase state individual income tax collections by an additional \$0.6 billion in FY 2018-19 and \$1.4 billion in FY 2019-20. The FY 2018-19 estimate represents a half year impact. These estimates are based on actual taxpayer data for tax years 2014 through 2016. Estimates assume growth in taxpayer incomes, resulting in a larger share of taxpayers impacted by the new tax rates over time. Table 2 shows the impact on income tax liability for five example taxable incomes.

<b>If taxable income** is...</b>	<b>The measure will increase annual income tax liability* by....</b>
less than \$150,000	\$0
\$200,000	\$185
\$250,000	\$870
\$400,000	\$3,925
\$1,000,000	\$24,395

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

\*\* These examples apply to single, head of household, and joint filers.

**Corporate income tax.** Under current law, the corporate income tax rate is 4.63 percent, which is expected to generate \$778.8 million in FY 2018-19 and \$745.0 million in FY 2019-20. The measure increases the corporate tax rate by 1.37 percent to a total rate of 6.0 percent. The rate increase is expected to generate \$112.7 million in new revenue in FY 2018-19 and \$229.4 million in FY 2019-20. This amount is based on the Legislative Council Staff June 2018 forecast for corporate income tax collections in FY 2018-19 and FY 2019-20.

**State Expenditures**

In FY 2018-19, the measure increases state expenditures from the General Fund by \$174,933 and 1.6 FTE. In FY 2019-20, the measure increases state expenditures by at least \$866.1 million and up to \$2.4 billion, and 1.3 FTE. Of the expenditures in FY 2019-20, \$85,843 is from the General Fund and the remainder is from the Quality Public Education Fund. The minimum funding represents the funding requirements specified in the measure; the maximum of \$2.4 billion includes all new revenue generated by the measure in FY 2018-19 (\$750.9 million) and FY 2019-20 (\$1.6 billion). In future years, approximately \$1.6 billion will be generated by the measure annually and available for spending on public education by the General Assembly.

Expenditures in FY 2019-20 from the Quality Public Education Fund are listed in Table 3. The expenditures listed in Table 3 assume that the budget stabilization factor, which was adopted as a budget balancing tool in 2010, remains constant in FY 2019-20. The budget stabilization factor applies an equal percentage reduction to school finance formula funding across all school districts, and totaled \$672.4 million in FY 2018-19. Whether the additional state revenue generated by the measure above the specified funding requirements is used to decrease the budget stabilization factor or for other educational priorities will be determined by the General Assembly.

<b>Table 3. State Expenditure Increase Required By Amendment 73</b>	
<b>Measure Requirements</b>	<b>FY 2019-20</b>
<b>Formula Funding</b>	
Base per pupil funding to \$7,300	\$378 million
Full Day Kindergarten (1.0 FTE)	\$227 million
Expansion of At-Risk (include reduced price lunch students)	\$81 million
Interactive Impacts**	\$20 million
<b>Formula Subtotal</b>	<b>\$706 million</b>
<b>Categorical and Preschool Programs</b>	
Special education	\$120 million
Gifted and talented programs	\$10 million
English language learning	\$20 million
Preschool funding	\$10 million
<b>Program Subtotal</b>	<b>\$160 million</b>
<b>Total - Specified Funding Requirements</b>	<b>\$866 million</b>
Remaining state funding generated by the measure in FY 2018-19 and FY 2019-20, to be spent on public education as determined by the state legislature.	\$1.5 billion
<b>Total Education Spending</b>	<b>\$2.4 billion*</b>

\* Includes revenue generated in FY 2018-19 (\$750.9 million) and FY 2019-20 (\$1.6 billion). Future years will allow spending up to the estimated \$1.6 billion per year, plus growth. The measure requires the revenue to be spent on education, but does not specify the timing for the spending.

\*\* Interactive impacts result from a higher base per pupil level for students projected under current law, and the additional at-risk and kindergarten students required to be funded by the measure.

**Formula funding.** The measure increases total program funding by at least \$706 million in FY 2019-20. Funding increases include:

- \$378 million from increasing the base per pupil funding to \$7,300;
- \$227 million from increasing full day kindergarten funding from 0.58 percent to 1.0 per full time equivalent student; and
- \$81 million from increasing at risk funding to include students qualifying for reduced price lunch.

In addition, the measure also results in \$20 million in additional costs from implementing the above requirements simultaneously. The measure increases the base per pupil funding to \$7,300 and expands the number of kindergarten students and at risk students funded through the school finance formula. The measure thus increases funding for the number of projected students under current law, and for the additional students required by the measure to be funded through the formula.

**Categorical and preschool components.** In FY 2019-20, the measure also increases funding for three categorical programs and preschool early-childhood education by a total of \$160 million above FY 2018-19 spending levels. As shown in Table 1, special education funding must increase by \$120 million, gifted and talented programs by \$10 million, English language proficiency programs by \$20 million, and preschool funding by \$10 million.

**Administrative components.** The measure requires at least \$174,933 and 1.6 FTE in FY 2018-19 and \$85,843 and 1.3 FTE in FY 2019-20 to implement the measure, as discussed below.

**Department of Revenue.** The measure requires expenditures of \$174,933 and 1.6 FTE in FY 2018-19 and \$85,843 and 1.3 FTE in FY 2019-20 from the General Fund to the Department of Revenue to implement the measure. Expenditures include \$46,250 to update and test the GenTax system, \$7,200 to update forms, and \$8,226 for document management in FY 2018-19, and for 1.6 FTE in FY 2018-19 and 1.3 FTE in FY 2019-20 to address questions, correspondence, protests, and refunds in both years. Required costs also include \$27,873 in FY 2018-19 and \$22,682 in FY 2019-20 for employee benefits and indirect costs.

**Future year impacts - CDE.** The measure increases expenditures in the Department of Education to conduct the required study on how money from the fund was spent, and determine best practices for continuous improvement in student achievement. The study must be completed within five years of the fund's implementation, or no later than FY 2024-25. Costs to contract for the study may range from \$500,000 to \$3 million based on previous studies. Funds from the Quality Public Education Fund may be used to cover the costs of the study. Additional expenditures may be required to update data systems and collect additional data prior to the study.

**Future year impacts - LCS.** The measure increases the workload for Legislative Council Staff to prepare the required report for the General Assembly no more than ten years after the implementation of a new school finance act. This fiscal impact statement assumes no additional funding is required.

## Local Government and School District Impacts

The measure increases revenue to school districts by a minimum of \$866 million and up to \$2.3 billion in FY 2019-20, the first full fiscal year the measure is implemented. The minimum spending represents the funding requirements specified in the measure; the maximum increase

is the result of \$2.4 billion in new state revenue generated in FY 2018-19 and FY 2019-20 and a \$62.4 million net decrease in property tax revenue in FY 2019-20. In future years, approximately \$1.6 billion, plus growth, is expected to be available annually to support public education.

**State revenue to school districts.** The measure increases revenue from individual and corporate income taxes by \$750.9 million in FY 2018-19 and \$1.6 billion in FY 2019-20 and beyond. This revenue will be deposited in the Quality Public Education Fund. Beginning in FY 2019-20, the measure requires the General Assembly to appropriate and allows school districts to expend this money to support, improve, and enhance P-12 public education. Of the revenue generated, \$866 million must be spent for the state's share of total program, categorical programs, and preschool funding based on the measure's requirements; the remaining funds must be spent on public education as determined by the General Assembly.

**Property tax revenue.** Property taxes are paid on a portion of a property's value, determined by an assessment rate. Under current law, the assessment rate for most nonresidential property is set at 29 percent, and the rate for residential property is determined by the state legislature based on a formula in the state constitution. Over time, the residential assessment rate has fallen from 21 percent in 1983 to the current rate of 7.2 percent. The rate is expected to fall further to 6.1 percent in 2019, based on projections published by Legislative Council Staff in December 2017.

For school district property taxes only, beginning in 2019, Amendment 73 reduces the nonresidential assessment rate from 29 percent to 24 percent, thereby reducing taxes for nonresidential property. The measure reduces the residential assessment rate from 7.2 percent to 7.0 percent, and sets it at this lower rate, keeping it from falling further. Relative to the projected 6.1 percent residential assessment rate for 2019, the rate under the measure will result in a tax increase for residential property taxpayers.

In 2019, the measure is projected to decrease school district property tax revenue by \$62.4 million, reflecting a decrease in nonresidential property tax revenue of \$317.8 million, partially off-set by an increase in residential property tax revenue of \$255.3 million. The measure only applies to property taxes levied by school districts. The measure does not impact the assessment rates for mines and lands producing oil and gas.

**Impact of full day kindergarten on local share of school finance.** For three school districts (Harrison, Colorado Springs, and Cherry Creek), counting all kindergarten students as 1.0 FTE results in an approximately \$5.0 million increase in the local share of school funding. These districts will not need to lower their school finance mill levy rate by as much as other districts in order to meet their constitutional spending limits, resulting in an increase to the property taxes that fund the local share. This impact has not been incorporated into the estimates for the statewide property tax impacts as a result of the measure.

**Workload - school districts.** The measure is likely to increase the costs and workload for school districts to document how revenue from the Quality Public School Fund is spent for the study compiled by CDE and adjust data systems accordingly. The costs vary based on the size and resources of each district.

**Workload - county assessors.** The measure increases costs for county assessors to implement the new assessment rates for school district property taxes only. The measure establishes a parallel set of assessment rates for school districts compared with those used for other local government entities. Assessors will be required to update or change property tax computer and data systems to accommodate the parallel rates and may require additional staff to implement such a change. Specific impacts will vary by county.

## Effective Date

If approved by voters, the measure takes effect upon proclamation of the Governor within 30 days of the official canvass of votes at the 2018 general election.

## State and Local Government Contacts

Education  
Property Tax

Information Technology  
Revenue

Legislative Council  
School District