



**Colorado  
Legislative  
Council  
Staff**

**Initiative # 104  
INITIAL FISCAL  
IMPACT STATEMENT**

**Date:** January 17, 2018

**Fiscal Analyst:** Marc Carey (303-866-4102)  
Anna Gerstle (303-866-4375)

**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> Quality Public Education Fund	<b>\$729 million</b> \$729 million	<b>\$1.6 billion</b> \$1.6 billion
<b>State Expenditures</b> General Fund Quality Public Education Fund	<b>\$94,861</b> \$94,861	<b>\$1.9 billion</b> \$39,403 \$1.9 billion

**Note:** This *initial* fiscal impact estimate has been prepared for the Title Board. If the initiative is placed on the ballot, Legislative Council Staff may revise this estimate for the Blue Book Voter Guide if new information becomes available.

**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.

**Education spending requirements.** Beginning in FY 2019-20 and until a new public school finance law that meets certain 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; and
- fully fund reductions resulting from the budget stabilization factor.

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;
- 1.87 percent for income between \$200,000 and \$300,000;
- 2.87 percent for income between \$300,000 and \$500,000; and
- 3.37 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.

**New school finance act.** The measure requires 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.

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.

**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.

**Assessment rate.** Beginning January 1, 2019, the measure specifies that the residential assessment rate is 7.0 percent for property taxes levied by school districts. All other taxable property is valued for assessment at 24.0 percent for property taxes levied by school districts, with the exception of property and leases for mines and producing oil and gas. For property taxes levied by all other local governments, current law determines the residential assessment rate.

**State Revenue**

The measure increases state revenue by \$728.5 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 \$88.5 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 \$179.9 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 impact of the federal Tax Cuts and Jobs Act, recently signed into law.

**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 3.37 percent, depending on the amount of taxable income, as shown in Table 1. For example, a taxpayer with taxable income equal to \$225,000 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 \$25,000 would be taxed at a rate of 6.5 percent.

<b>Taxable income between...</b>	<b>...is taxed at a marginal rate of...</b>	<b>Change in the Tax Rate Under Initiative</b>
\$0 and \$150,000	4.63%	No Change
\$150,001 and \$200,000	5.0%	0.37%
\$200,001 and \$300,000	6.5%	1.87%
\$300,001 and \$500,000	7.5%	2.87%
Over \$500,000	8.0%	3.37%

Under current law, revenue from individual income taxes is expected to be \$7.9 billion in FY 2018-19 and \$8.3 billion in FY 2019-20, based on the Legislative Council Staff December 2017 forecast. The measure is expected to increase state individual income tax collections by 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 average taxpayer impact expected as a result of the measure.

<b>Taxpayers with taxable income ranging from...</b>	<b>Filers Impacted</b>	<b>Average 2019 Tax Increase Per Taxpayer</b>
\$0 and \$150,000	None	No Change
\$150,001 and \$200,000	73,217	\$81
\$200,001 and \$300,000	56,601	\$928
\$300,001 and \$500,000	31,988	\$4,357
Over \$500,000	24,177	\$41,530

**Corporate income tax.** Under current law, the corporate income tax rate is 4.63 percent, which is expected to generate \$580 million in FY 2018-19 and \$616 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 \$88.5 million in new revenue in FY 2018-19 and \$179.9 million in FY 2019-20. This amount is based on the Legislative Council Staff December 2017 forecast for corporate income tax collections in FY 2018-19 and FY 2019-20.

## State Expenditures

The measure increases state expenditures by \$94,861 and 0.5 FTE in FY 2018-19 and by at least \$1.9 billion beginning in FY 2019-20. Expenditure increases in FY 2018-19 are from the General Fund. Expenditure increases in FY 2019-20 include at least \$1.9 billion from the Quality Public Education Fund, and \$39,403 from the General Fund. Expenditures from the Quality Public Education Fund are listed in Table 3.

<b>Table 3. Minimum Expenditure Increase Required By Initiative #104</b>	
<b>Measure Requirements</b>	<b>FY 2019-20</b>
<b>Formula Funding</b>	
Base per pupil funding to \$7,300	\$619 million
Full Day Kindergarten (1.0 FTE)	\$223 million
Expansion of At-Risk (include reduced price lunch students)	\$77 million
Fully Fund Budget Stabilization Factor	\$828 million
<b>Subtotal</b>	<b>\$1.7 billion</b>
Interactive Impacts*	\$25 million
<b>Formula Total</b>	<b>\$1.8 billion</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</b>	<b>\$1.9 billion</b>

\* 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 \$1.8 billion in FY 2019-20. Funding increases include:

- \$619 million from increasing the base per pupil funding to \$7,300;
- \$223 million from increasing full day kindergarten funding from 0.58 percent to 1.0 per full time equivalent student;
- \$77 million from increasing at-risk funding to include students qualifying for reduced price lunch; and

- \$828 million to fully fund the budget stabilization factor, assuming the budget stabilization factor does not change from FY 2017-18 levels.

In addition, the measure also results in \$25 million in additional costs from implementing the above formula components 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 3, 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.

**Funding source.** The measure does not specify a source for the approximately \$440 million in required spending above the amount of revenue generated by the measure. The General Assembly could choose to increase state funding by diverting existing funds from other programs, or generating additional revenue, subject to constitutional requirements.

**Administrative components.** The measure requires \$94,861 and 0.5 FTE in FY 2018-19 and \$39,403 and 0.5 FTE in FY 2019-20 to implement the measure, as discussed below.

**Department of Revenue.** The measure requires expenditures of \$94,861 and 0.5 FTE in FY 2018-19 and \$39,403 and 0.5 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 and \$7,200 to update forms in FY 2018-19, and for 0.5 FTE to address questions, correspondence, protests, and refunds in both years. Required costs also include \$9,066 in FY 2018-19 and \$9,292 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.

**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 \$1.9 billion in FY 2019-20, the first full fiscal year the measure is implemented. The measure generates a net \$1.5 billion in local government revenue, as districts will receive \$1.6 billion in state revenue, and see a \$62.4 million decrease in revenue from property taxes; however, a minimum of \$1.9 billion must be distributed in FY 2019-20 for the purposes specified in the measure. The measure does

not specify a source for the approximately \$440 million in required spending above the amount of revenue generated by the measure. The allocation of new revenue to districts is dependent on factors in the current school finance formula and has not been estimated.

**Property tax revenue.** The Colorado Constitution requires that the proportion of taxable value for residential and nonresidential property remain constant between each reassessment cycle. This proportion is known as the target percentage, and is adjusted for any new construction and mineral production that occurs during the reassessment cycle. Nonresidential property is taxed at an assessment rate of 29 percent. The vehicle for achieving the target percentage is the adjustment of the residential assessment rate. The residential assessment rate for 2017 and 2018 is 7.20 percent in current law, however the General Assembly must adjust the residential assessment rate in 2019 to maintain the target percentage required under the state constitution.

Setting the residential assessment rate at 7.0 percent and the nonresidential assessment rate at 24.0 percent for mills levied by school districts, the measure decreases local property tax revenue to fund P-12 public schools by \$62.4 million in FY 2019-20. These estimates are based on the December 2017 Legislative Council Staff Assessed Value Forecast.

The measure only applies to property taxes levied by school districts. Property taxes levied by other local governments are unaffected by the measure. The calculation for the target percentage and the residential assessment rate will be determined by the assessed values used for all other local governments and is unaffected by the measure.

**State revenue to school districts.** The measure increases revenue from individual and corporate income taxes by \$729 billion 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 annually to appropriate and allows schools districts to annually expend this money to support, improve, and enhance P-12 public education. The allocation of this revenue to districts is dependent on factors in the current school finance formula and has not been estimated; however, a minimum of \$1.9 billion in additional funding for the state's share of total program, categorical programs, and preschool funding is anticipated for FY 2019-20 based on the measure's requirements. Once a new school finance act is adopted, the distribution of funding to school districts is expected to change.

**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 reports compiled by CDE. The costs vary based on the size and resources of each district.

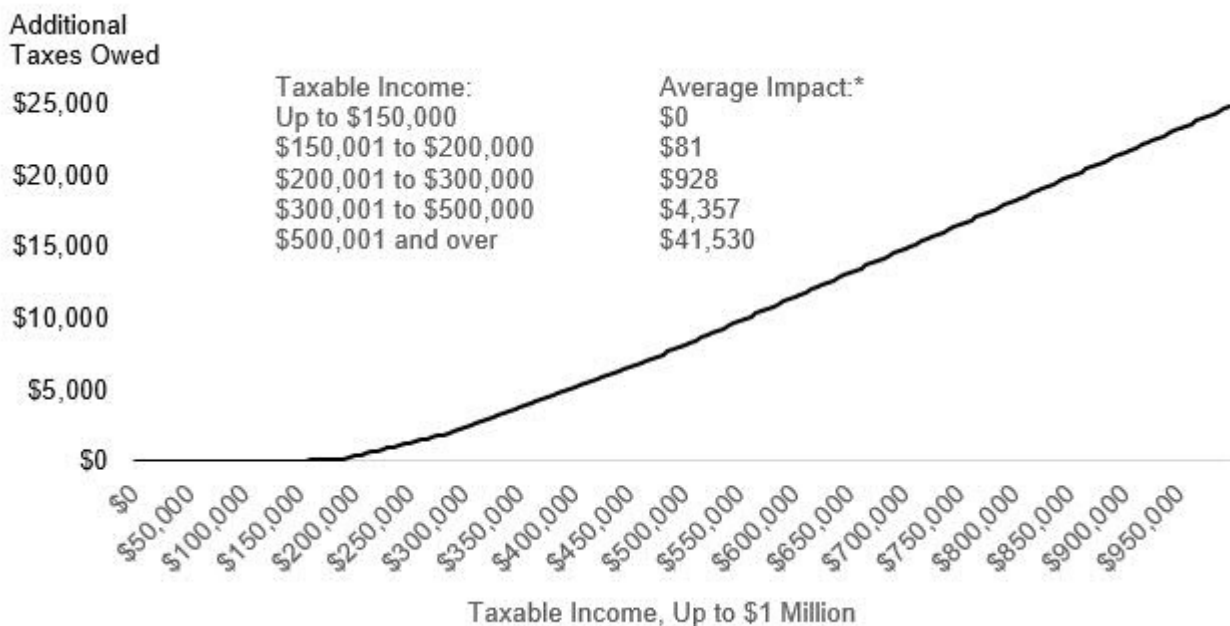
**Workload - county assessors.** The measure increases costs for county assessors to implement the new residential assessment rate for education funding. Assessors will be required to update or change property tax computer and data systems and may require additional staff to implement such a change. Specific impacts will vary among counties.

## Economic Impact

Additional spending on public education will increase employment, income, and spending in some industries and may increase economic opportunities for students. Households and businesses will pay more in income taxes, reducing investment, spending, or saving elsewhere in the economy.

**Taxpayer impacts.** The actual amount of additional income taxes paid by each individual and corporate taxpayer depends on the taxpayer's taxable income. On average, corporate income taxpayers with an income tax liability are expected to pay an additional \$11,085 per year under the measure. While, on average, individual income taxpayers will pay an additional \$528 in individual income taxes each year, those with taxable income equal to \$150,000 or less will be unaffected. Higher income taxpayers will pay a larger amount as a percent of their income than lower income individuals, as shown in Figure 1.

**Figure 1**  
**Individual Income Tax Increase Under Initiative #104**



Source: Legislative Council Staff calculations.

\*Averages are based on actual taxpayer data

This measure may increase property taxes paid. Assuming the weighted average 2017 statewide school mill levy, property taxes will increase by \$28.04 for each \$100,000 in actual value. For a residential property valued at the 2019 statewide average of \$368,632, the measure will increase property taxes by about \$103.38 per year. The amount in additional taxes paid will depend on the extent to which the measure increases property taxes, the taxpayer's property value, and local district mill levies. Reducing the assessment rate from 29 percent to 24 percent for non-residential property results in a 17.2 percent decrease in school property taxes paid, or by \$157.55 for each \$100,000 in value. The value of nonresidential property and local school mills determine school property taxes.

### Effective Date

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

## State and Local Government Contacts

Education  
Property Tax

Information Technology  
Revenue

Legislative Council Staff  
School Districts



## **Abstract of Initiative 104: FUNDING FOR PUBLIC SCHOOLS**

**This initial fiscal estimate, prepared by the nonpartisan Director of Research of the Legislative Council as of January, 2018, identifies the following impacts:**

The abstract includes estimates of the fiscal impact of the initiative. If this initiative is to be placed on the ballot, Legislative Council Staff will prepare new estimates as part of a fiscal impact statement, which includes an abstract of that information. All fiscal impact statements are available at [www.ColoradoBlueBook.com](http://www.ColoradoBlueBook.com) and the abstract will be included in the ballot information booklet that is prepared for the initiative.

**State Revenue.** The measure increases state revenue to the Quality Public Education Fund by \$729 million in FY 2018-19 (half-year impact) and \$1.6 billion in FY 2019-20. This amount is from individual income taxes and corporate income taxes. This revenue is exempt from TABOR and must be used for purposes identified in the measure.

**State Expenditures.** The measure increases state expenditures by \$94,861 and 0.5 FTE in FY 2018-19 and by at least \$1.9 billion beginning in FY 2019-20. Expenditure increases in FY 2018-19 are for administrative costs, and expenditure increases in FY 2019-20 include \$1.9 billion from the Quality Public Education Fund, and \$39,403 from the General Fund. The measure does not specify a source for the approximately \$440 million in required spending above the amount of revenue generated by the measure.

**Local Government and School District Impact.** The measure revenue to school districts by at least \$1.9 billion in FY 2019-20, the first full fiscal year the measure is implemented. The measure generates \$1.5 billion in local government revenue, as 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 factors in the current school finance formula and has not been estimated; however, a minimum of \$1.9 billion must be distributed in FY 2019-20 for the purposes specified in the measure.

**Economic Impact.** Additional spending on public education will increase employment, income, and spending in some industries and may increase economic opportunities for students. Households and businesses will pay more in income taxes, reducing investment, spending, or saving elsewhere in the economy.

**Taxpayer impacts.** The actual amount of additional income taxes paid by each individual and corporate taxpayer depends on the taxpayer's taxable income. On average, corporate income taxpayers with an income tax liability are expected to pay an additional \$11,085 per year under the measure. While, on average, individual income taxpayers will pay an additional \$528 in individual income taxes each year, those with taxable income equal to \$150,000 or less will be unaffected. Higher income taxpayers will pay a larger amount as a percent of their income than lower income individuals, as shown in Table 4.

<b>Taxpayers with taxable income ranging from...</b>	<b>Filers Impacted</b>	<b>Average 2019 Tax Increase Per Taxpayer</b>
\$0 and \$150,000	None	No Change
\$150,001 and \$200,000	73,217	\$81
\$200,001 and \$300,000	56,601	\$928
\$300,001 and \$500,000	31,988	\$4,357
Over \$500,000	24,177	\$41,530

This measure may increase property taxes paid. Assuming the weighted average 2017 statewide school mill levy, property taxes will increase by \$28.04 for each \$100,000 in actual value. For a residential property valued at the 2019 statewide average of \$368,632, the measure will increase property taxes by about \$103.38 per year. The amount in additional taxes paid will depend on the extent to which the measure increases property taxes, the taxpayer's property value, and local district mill levies. Reducing the assessment rate from 29 percent to 24 percent for non-residential property results in a 17.2 percent decrease in school property taxes paid, or by \$157.55 for each \$100,000 in value. The value of nonresidential property and local school mills determine school property taxes.