



**Colorado
Legislative
Council
Staff**

Initiative # 75

**INITIAL FISCAL
IMPACT STATEMENT**

Date: December 5, 2017

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LCS TITLE: FUNDING FOR PUBLIC SCHOOLS - INITIATIVE 75

Fiscal Impact Summary	FY 2018-2019	FY 2019-2020
State Revenue	<u>\$1.4 billion</u>	<u>\$2.8 billion</u>
Quality Public Education Fund	\$1.4 billion	\$2.8 billion
State Expenditures	<u>\$94,861</u>	<u>\$868 million</u>
General Fund	\$94,861	\$39,403
Quality Public Education Fund		\$868 million

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, and any other money appropriated by the General Assembly. 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 \$7,100;
- 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 \$9 million;
 - English language proficiency programs by \$20 million; and
 - preschool funding by \$5 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:

- 0.37 percent for income between \$100,000 and \$125,000;
- 1.87 percent for income between \$125,000 and \$250,000;
- 2.87 percent for income between \$250,000 and \$500,000; and
- 3.87 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. 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 7.2 percent for school district property tax levies. For property taxes levied by all other local governments, current law determines the residential assessment rate. All other taxable property is valued for assessment as specified in current law.

State Revenue

The measure increases state revenue by \$1.4 billion in FY 2018-19 (half-year impact) and \$2.8 billion in FY 2019-20, to be 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 \$1.3 billion from individual income taxes and \$89.4 million from corporate income taxes in FY 2018-19. The revenue estimate for FY 2019-20 includes approximately \$2.7 billion from individual income tax and \$181.3 million from corporate income tax. This revenue is exempt from TABOR and must be used for purposes identified in the measure.

Individual income tax. The measure creates graduated income tax rates for taxable income above \$100,000. Graduated rates are increased above the current 4.63 percent by between 0.37 percent and 3.87 percent, depending on the amount of taxable income, as shown in Table 1. Table 1 also shows the number of taxpayers expected to be impacted by the new rates, and the average annual tax increase expected as a result of the measure.

Taxable Income	Filers Impacted	Tax Rate Under Current Law	Change in Tax Rate Under Initiative	New Tax Rate Under Initiative	Average Annual Increase Per Taxpayer
All income up to \$100,000	NA	4.63%	NA	NA	NA
\$100,000 through \$125,000	497,298		0.37%	5.0%	\$366
\$125,001 through \$250,000	354,342		1.87%	6.5%	\$2,778
\$250,001 through \$500,000	113,618		2.87%	7.5%	\$8,057
All income above \$500,000	43,224		3.87%	8.5%	\$33,280

NA = not applicable. The tax rate for income under \$100,000 is unchanged by the measure.

* The number of filers with taxable incomes within each range. Filers with income in excess of the prior range will be included in the subsequent range (e.g. those with incomes in excess of \$500,000 are counted for each range).

Under current law, revenue from individual income taxes is expected to be \$7.6 billion in FY 2018-19 and \$7.9 billion in FY 2019-20, based on the Legislative Council Staff September 2017 forecast. The measure is expected to increase state individual income tax collections by \$1.3 billion in FY 2018-19 and \$2.7 billion in FY 2019-20. The FY 2018-19 estimate represents a half year impact. These estimates assume growth in taxpayer incomes, resulting in a larger share of taxpayers impacted by the new tax rates over time.

Corporate income tax. Under current law, the corporate income tax rate is 4.63 percent, which is expected to generate \$608 million in FY 2018-19 and \$600 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 \$89.4 million in new revenue in FY 2018-19 and \$181.3 million in FY 2019-20. This amount is based on the Legislative Council Staff September 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 \$868 million 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 \$868 million from the Quality Public Education Fund, and \$39,403 from the General Fund. Expenditures from the Quality Public Education Fund are listed in Table 2.

Table 2. Minimum Expenditure Increase Required By Initiative #75	
Measure Requirements	FY 2019-20
Formula Funding	
Base per pupil funding to \$7,100	\$387 million
Full Day Kindergarten (1.0 FTE)	\$233 million
Expansion of At-Risk (include reduced price lunch students)	\$78 million
Subtotal	\$698 million
Interactive Impacts*	\$16 million
Formula Total	\$714 million
Categorical and Preschool Programs	
Special education	\$120 million
Gifted and talented programs	\$9 million
English language learning	\$20 million
Preschool funding	\$5 million
Program Subtotal	\$154 million
TOTAL	\$868 million

* Interactive impacts result from a higher base per pupil level for students projected under current law, and for 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 \$714 million in FY 2019-20. Funding increases include:

- \$387 million from increasing the base per pupil funding to \$7,100;
- \$233 million from increasing full day kindergarten funding from 0.58 percent to 1.0 per full time equivalent student; and
- \$78 million from increasing at risk funding to include students qualifying for reduced price lunch.

In addition, the measure also results in \$16 million in additional costs from implementing the above formula components simultaneously. The measure increases the base per pupil funding to \$7,100 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 \$154 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 \$9 million, English language proficiency programs by \$20 million, and preschool funding by \$5 million.

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 General Fund expenditures from 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.

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 at least \$868 million and up to \$3.04 billion in FY 2019-20, the first complete fiscal year the measure is implemented. Of the potential \$3.04 billion, \$2.8 billion is from state revenue to school districts, and \$237.2 million is new local property tax revenue. 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 \$868 million must be distributed in FY 2019-20 for the purposes specified in the measure.

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.

Based on the forecast growth rates for residential and nonresidential properties published in December 2016 and preliminary 2017 assessed values provided by county assessors, and maintaining the residential assessment rate of 7.20 percent for mills levied by school districts, the measure provides \$237.2 million in additional local property tax revenue to fund P-12 public schools in FY 2019-20.

The measure only applies to property taxes levied by school districts. Property taxes levied by other local governments are unaffected by the measure.

State revenue to school districts. The measure increases revenue from individual and corporate income taxes by \$1.4 billion in FY 2018-19 and \$2.8 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 \$868 million 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 in some industries and may increase economic opportunities for students. Households and businesses will pay more in income taxes and may pay more in property taxes, reducing investment, spending, or saving elsewhere in the economy.

Taxpayer impacts. This analysis estimates that taxpayers with taxable incomes in excess of \$100,000 will pay an additional \$999 in individual income taxes on average each year. On average, corporate income taxpayers with an income tax liability are expected to pay an additional \$11,200 per year under the measure. The actual amount will vary for each individual and corporate taxpayer depending on the taxpayer's taxable income.

This measure may also increase property taxes paid. Based on U.S. Census Bureau estimates of the number of housing units in Colorado, a \$237.2 million increase in school property taxes represents a \$101 increase in property taxes for the average residential property. This is based on an average value of \$340,859 in 2019. 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.

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

Abstract of Initiative 75 - Funding for Public Schools

This initial fiscal estimate, prepared by the nonpartisan Director of Research of the Legislative Council as of December 2017, 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 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 \$1.4 billion in FY 2018-19 (half-year impact) and \$2.8 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 \$868 million beginning in FY 2019-20. Expenditure increases in FY 2018-19 are for administrative costs, and expenditure increases in FY 2019-20 include \$868 million from the Quality Public Education Fund, and \$39,403 from the General Fund.

School District and Local Government Impact. The measure increases revenue to school districts by at least \$868 million and up to \$3.04 billion in FY 2019-20, the first complete fiscal year the measure is implemented. Of the potential \$3.04 billion, \$2.8 billion is from state revenue to school districts, and \$237.2 million is new local property tax revenue. 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 \$868 million must be distributed in FY 2019-20 for the purposes specified in the measure.

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

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