



**Colorado
Legislative
Council
Staff**

Initiative # 89

**INITIAL FISCAL
IMPACT STATEMENT**

Date: January 3, 2018

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LCS TITLE: FUNDING FOR PUBLIC SCHOOLS

Fiscal Impact Summary	FY 2018-2019	FY 2019-2020
State Revenue	<u>\$638.1 million</u>	<u>\$1.4 billion</u>
Quality Public Education Fund	\$638.1 million	\$1.4 billion
State Expenditures	<u>\$94,861</u>	<u>\$1.1 billion</u>
General Fund	\$94,861	\$39,403
Quality Public Education Fund		\$1.1 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;

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.

All revenue from this individual 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.

State Revenue

The measure increases state revenue from individual income taxes by approximately \$638 million in FY 2018-19 and \$1.4 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. This revenue is exempt from TABOR and must be used for purposes identified in the measure. This estimate incorporates the impacts of the federal Tax Cuts and Jobs Act that was 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 3.62 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 6.0 percent.

Taxable income between...	...is taxed at a marginal rate of...	Change in the Tax Rate Under Initiative
\$0 and \$150,000	4.63%	No Change
\$150,001 and \$200,000	5.0%	0.37%
\$200,001 and \$300,000	6.0%	1.37%
\$300,001 and \$500,000	7.0%	2.37%
Over \$500,000	8.25%	3.62%

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 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 average taxpayer impact expected as a result of the measure.

Taxpayers with taxable income ranging from...	Filers Impacted	Average 2019 Tax Increase Per Taxpayer
\$0 to \$150,000	None	No Change
\$150,000 to \$200,000	73,156	\$81
\$200,001 to \$300,000	56,536	\$729
\$300,001 to \$500,000	31,900	\$3,456
Over \$500,000	24,070	\$42,528

State Expenditures

The measure increases state expenditures by \$94,861 and 0.5 FTE in FY 2018-19 and by at least \$1.1 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 \$1.1 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.

Table 3. Minimum Expenditure Increase Required By Initiative #89	
Measure Requirements	FY 2019-20
Formula Funding	
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
Subtotal	\$918 million
Interactive Impacts*	\$25 million
Formula Total	\$943 million
Categorical and Preschool Programs	
Special education	\$120 million
Gifted and talented programs	\$10 million
English language learning	\$20 million
Preschool funding	\$10 million
Program Subtotal	\$160 million
TOTAL	\$1.1 billion

* *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 \$943 million 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; and
- \$77 million from increasing at risk funding to include students qualifying for reduced price lunch.

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 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 \$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.

School District Impact

The measure increases revenue from individual income taxes by \$638 million in FY 2018-19 and \$1.4 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 \$1.1 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.

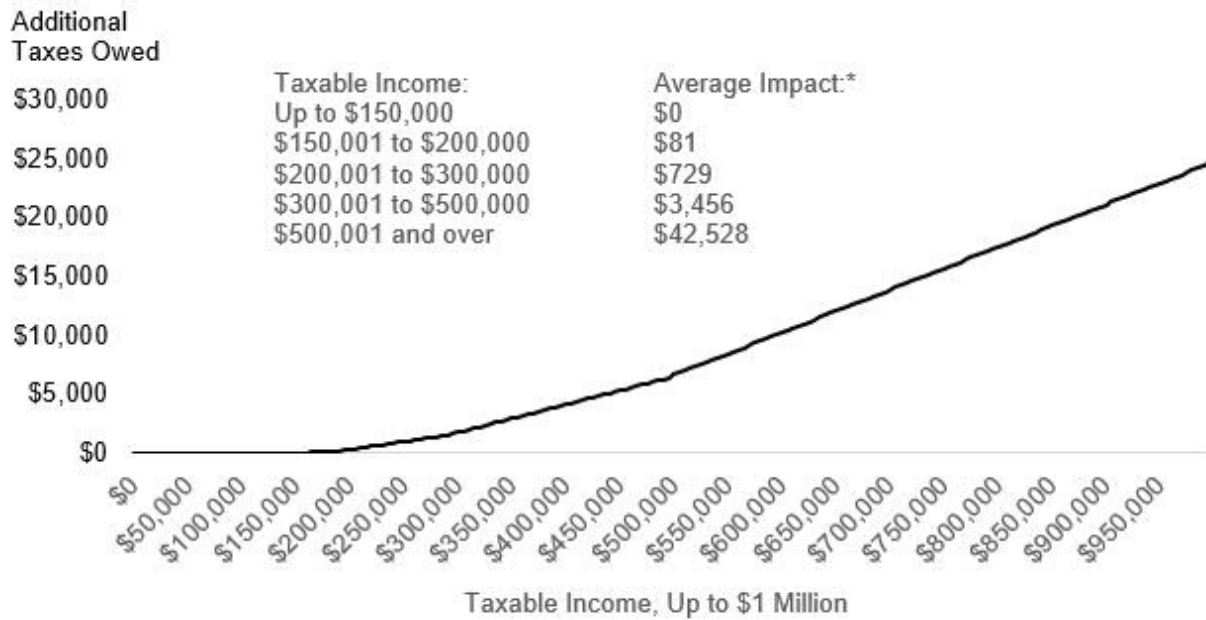
The measure is likely to increase the costs and workload for school districts to document how revenue from the Quality Public School Fund is spent for the reports compiled by CDE. The costs vary based on the size and resources of each district.

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 taxpayer depends on the taxpayer's taxable income. On average, individual income taxpayers will pay an additional \$519 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 #89



Source: Legislative Council Staff calculations.
 *Averages are based on actual taxpayer data

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 89: 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 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 \$638 million in FY 2018-19 (half-year impact) and \$1.4 billion in FY 2019-20. This amount is from individual 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 \$1.1 billion beginning in FY 2019-20. Expenditure increases in FY 2018-19 are for administrative costs, and expenditure increases in FY 2019-20 include \$1.1 billion from the Quality Public Education Fund, and \$39,403 from the General Fund.

School District Impact. The measure increases revenue from individual income taxes by \$638 million in FY 2018-19 and \$1.4 billion in FY 2019-20 and beyond. This revenue will be deposited in the Quality Public Education Fund. Beginning in FY 2019-20, school districts will be allocated and be allowed to spend this revenue on educational services.

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 taxpayer depends on the taxpayer's taxable income. On average, individual income taxpayers will pay an additional \$519 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.

Taxpayers with taxable income ranging from...	Filers Impacted	Average 2019 Tax Increase Per Taxpayer
\$0 to \$150,000	None	No Change
\$150,000 to \$200,000	73,156	\$81
\$200,001 to \$300,000	56,536	\$729
\$300,001 to \$500,000	31,900	\$3,456
Over \$500,000	24,070	\$42,528