



Legislative Council Staff  
Nonpartisan Services for Colorado's Legislature

INITIAL FISCAL IMPACT STATEMENT

Date: April 2, 2019 Fiscal Analyst: Anna Gerstle (303-866-4375)

LCS TITLE: FUNDING FOR PUBLIC SCHOOLS

Fiscal Impact Summary		FY 2019-20	FY 2020-21
Revenue	General Fund	(\$45.6 million)	(\$92 million)
	Cash Fund	\$719.5 million	\$1.5 billion
<b>Total</b>		<b>\$673.9 million</b>	<b>\$1.4 billion</b>
Expenditures	General Fund		\$164,360
	Cash Fund		at least \$1.6 billion
<b>Total</b>			<b>at least \$1.6 billion</b>

*Disclaimer. This initial fiscal impact statement has been prepared for the Title Board. If the initiative is placed on the ballot, Legislative Council Staff may revise this estimate for the ballot information booklet (Blue Book) 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 must be used to support and enhance the quality of preschool through twelfth grade (P-12) public education, beginning in FY 2020-21. 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 states that it is the intent of the people that the General Assembly 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 a new school finance act has been enacted, the General Assembly may utilize money in the fund for implementation.

**Education spending requirements.** Beginning in FY 2020-21, and until a new public school finance law is enacted by the General Assembly, money from the Quality Public Education Fund must be used to:

- increase the statewide base per pupil funding for P-12 public education to \$7,300;

- fully fund the reduction from the budget stabilization factor; and
- increase state funding for the following programs by at least the following amounts over FY 2019-20 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 specific increases are to be adjusted for inflation beginning in FY 2021-22. In addition, the bill 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 priced lunch; and
- full day kindergarten funding be increased from 0.58 to 1.0 per full time equivalent student.

**Income tax.** The measure creates an exception to the current 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 modifies state income tax rates on the taxable income of individuals, fiduciaries, and partnerships by the following graduated rates, beginning in tax year 2020:

- 0.13 percentage rate reduction for income up to \$50,000;
- 0.37 percentage rate increase for income between \$150,000 and \$200,000;
- 1.12 percentage rate increase for income between \$200,000 and \$300,000;
- 2.02 percentage rate increase for income between \$300,000 and \$400,000; and
- 3.12 percentage rate increase for income over \$400,000.

The measure also increases the state corporate income tax rate for C corporations doing business in Colorado by 1.37 percentage points, beginning in tax year 2020. 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 rates.** Currently, the residential assessment rate is 7.2 percent and the assessment rate for all other taxable property, excluding property and leases for mines and producing oil and gas, is 29 percent. Beginning January 1, 2020, the measure specifies that the residential assessment rate for property taxes levied by school districts is set at the rate established by the General Assembly during the 2019 legislative session. 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. The measure specifies that for the purposes of calculating the aggregate statewide assessed values, the assessment rates set by the measure for school district property must not be considered.

**Reporting requirements.** Within five years of when the new revenue 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 act.

**Assumptions**

This fiscal impact statement assumes that the rate reduction for income up to \$50,000 will be applied to the General Fund, and not the Quality Public Education Fund.

**State Revenue**

The measure increases state revenue by a net amount of \$673.9 million in FY 2019-20 (half-year impact) and \$1.4 billion in FY 2020-21. This amount is expected to grow over time with growth in population, income, and business earnings. This amount includes a General Fund revenue decrease from the individual income tax rate reduction for taxable income below \$50,000 equal to \$45.6 million in FY 2019-20 (half-year impact), and \$92.6 million in FY 2020-21. Revenue to the Quality Public Education Fund from corporate and individual income tax rate increases are expected to total \$719.5 million in FY 2019-20 (half-year impact) and \$1.5 billion in FY 2020-21. This revenue is exempt from TABOR and must be used for purposes identified in the measure.

**Individual income tax.** Relative to the current law rate of 4.63 percent for all taxable income, the measure creates graduated income tax rates for taxable income, ranging from 4.5 percent to 7.75 percent, as shown in Table 1. For example, a taxpayer with taxable income equal to \$250,000 would be taxed at a rate of 4.5 percent for the first \$50,000 in income, and 4.63 percent (the current rate) for income between \$50,000 and \$150,000. 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 5.75 percent.

**Table 1  
 Individual Income Tax Rates Under Initiative #25**

<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 \$50,000	4.5%	64.9%
\$50,000 and \$150,000	4.63%	26.8%
\$150,001 and \$200,000	5.0%	3.2%
\$200,001 and \$300,000	5.75%	2.5%
\$300,001 and \$400,000	6.75%	1.0%
Over \$400,000	7.75%	1.6%

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

\*\* Based on projections for tax year

Under current law, revenue from individual income taxes is expected to be \$8.30 billion in FY 2019-20 and \$8.58 billion in FY 2020-21, based on the March 2019 Legislative Council Staff forecast. The measure is expected to increase net state individual income tax collections by an additional \$562.5 million (half-year impact) in FY 2019-20 and \$1.14 billion in FY 2020-21. These

estimates are based on actual taxpayer data for tax years 2015 through 2017. 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 the income tax liability for five example taxable incomes.

**Table 2**  
**Individual Income Taxpayer Impacts Under Initiative #25**

<b>If taxable income* is...</b>	<b>The measure will increase annual income tax liability** by....</b>
\$50,000	-\$25
\$150,000	-\$65
\$200,000	\$185
\$250,000	\$745
\$400,000	\$3,425
\$1,000,000	\$22,145

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

\*\* *Actual tax liability may vary based on state income tax credits. Negative amounts indicate tax decreases.*

**Corporate income tax.** Under current law, the corporate income tax rate is 4.63 percent, which is expected to generate \$766.1 million in FY 2019-20 and \$740.0 million in FY 2020-21. 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 \$111.4 million in new revenue in FY 2019-20 (half-year impact) and \$227.0 million in FY 2020-21. This amount is based on the Legislative Council Staff March 2019 forecast for corporate income tax collections in FY 2019-20 and FY 2020-21.

### **State Expenditures**

In FY 2020-21, the measure increases state expenditures by a minimum of \$1.6 billion, and up to a net \$2.0 billion, and 0.1 FTE. The minimum funding represents the funding requirements specified by the measure, the maximum amount represents:

- an increase of \$2.2 billion from the Quality Public Education Fund as a result of income tax revenue generated by the measure in FY 2019-20 (\$719.5 million) and FY 2020-21 (\$1.4 billion);
- an increase in General Fund spending of \$164,360; and
- a decrease of \$138.2 million in General Fund expenditures as a result of the decrease in income tax revenue in FY 2019-20 (\$45.6 million) and FY 2020-21 (\$92.6 million).

In future years, a net \$1.4 billion will be generated by the measure annually, including a \$93 million decrease in General Fund expenditures and \$1.5 billion available for spending on public education by the General Assembly. Expenditures from the FY 2020-21 from the Quality Public Education Fund are listed in Table 3.

**Table 3  
 Education Expenditures Under Initiative 25**

<b>Cost Components</b>	<b>FY 2020-21</b>
<b>Formula Funding</b>	
Base per pupil funding to \$7,300	\$399 million
Full day kindergarten (1.0 FTE)	up to \$230 million
Expansion of at-risk (include reduced-price lunch students)	\$80 million
Fully fund the budget stabilization factor	\$672 million
Interactive impacts**	\$17 million
<b>Formula Subtotal</b>	<b>up to \$1.4 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 Specified Funding Requirements</b>	<b>up to \$1.6 billion</b>
Remaining state funding generated by the measure in FY 2019-20 and FY 2020-21, to be spent on public education, as determined by the state legislature.	\$618.8 million
<b>Total Education Spending</b>	<b>\$2.2 billion*</b>

\* Include revenue generated in FY 2019-20 (\$719.5 million) and FY 2020-21 (\$1.5 billion). Future years will allow spending up to an estimated \$1.4 billion per year, plus growth. The measure requires the revenue 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 \$1.4 billion in FY 2020-21. Funding increases include:

- \$399 million from increasing the base per pupil funding to \$7,300;
- up to \$230 million from increasing full day kindergarten funding from 0.58 to 1.0 per full time equivalent student;
- \$80 million from increasing at-risk funding to include students qualifying for reduced price lunch; and
- \$672 million to fully fund the budget stabilization factor, based on the current budget stabilization factor. This fiscal impact statement assumes that the budget stabilization factor must be fully funded beginning in FY 2020-21 and the measure does not require previous years' reductions to be fully funded.

In addition, the measure also results in \$17 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 additional students required by the measure to be funded through the formula.

**Categorical and preschool components.** In FY 2020-21, the measure also increases funding for three categorical programs and preschool early-childhood education by a total of \$160 million above FY 2019-20 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.

**General Fund reduction.** Beginning in FY 2020-21, the bill reduces revenue to the General Fund by approximately \$93 million per year. As a result, there will be less funding available for the General Assembly to spend or save from the General Fund.

**Administrative components.** The measure requires \$164,360 and 0.1 FTE in FY 2020-21, and \$7,600 and 0.1 FTE in subsequent years to implement the measure, as discussed below.

*Department of Revenue.* The measure requires \$164,360 and 0.1 FT in FY 2020-21 from the General Fund to the Department of Revenue to implement the measure. Expenditures include \$147,860 to modify and test the GenTax system, and \$7,200 to update forms. The 0.1 FTE is ongoing to address questions, correspondence, and protests in FY 2020-21 and subsequent years. Required costs also include \$2,177 in employee benefit and indirect costs.

*Department of Local Affairs.* The bill increases the workload for the Division of Property Taxation in the Department of Local Affairs to update manuals, respond to inquiries, and modify property tax assessment procedures and systems to account for multiple tax rates. Should additional appropriations be required, they will be requested through the annual budget process.

*Future year impacts - CDE.* The measure increases expenditures in the Department of Education to conduct the required study on how much 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 \$3.0 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. The fiscal impact statement assumes that no additional funding is required to prepare the report.

### Local Government Impact

The measure increases revenue to school districts by a minimum of \$1.6 billion and up to \$1.7 billion in FY 2020-21, 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 a net \$2.0 billion in new state revenue generated in FY 2019-20 and FY 2020-21 and a \$358.9 million decrease in property tax revenue in FY 2020-21. In future years, approximately \$1.4 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 \$719.5 million in FY 2019-20 and \$1.5 billion in FY 2020-21 and beyond. This revenue will be deposited in the Quality Public Education Fund. Beginning in FY 2020-21, 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, \$1.6 billion 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 - assumptions.** The measure impacts assessment rates for school district property taxes starting in tax year 2020. The assessment rate for most nonresidential properties will be reduced from 29 percent to 24 percent. The assessment rate for residential property will remain at the assessment rate established by the General Assembly in 2019. Consistent with the December 2018 Legislative Council Staff assessed values forecast, the measure will reduce assessed values for public school purposes by \$10.8 billion for 2020 and \$7.9 billion in 2021 as shown in Table 4. The assessed value calculations may change once the General Assembly establishes a residential assessment rate in 2019.

**Table 4  
 Change in Assessed Value under Initiative #25**

	<b>2020</b>	<b>2021</b>
Residential Assessed Values	\$0	\$3.58 billion
Percent Change	0%	5.8%
Nonresidential Assessed Values	(\$10.84 billion)	(\$11.47 billion)
Percent Change	-15.2%	-15.2%
<b>Total Assessed Values</b>	<b>(\$10.84 billion)</b>	<b>(\$7.89 billion)</b>

**Property tax revenue impact.** Using the assessed value assumptions from the December 2018 Legislative Council Staff forecast, and 2018 total program mills and override mills, this measure will decrease local district property tax revenue by \$358.9 million in FY 2020-21 and \$255.8 million in FY 2021-22. Property taxes are paid in the year following when they are levied. For example, property taxes levied in 2020 are collected in the first half of FY 2020-21. Table 5 shows the estimated change in school property taxes by type of property and type of school district mill.

**Table 5  
 Change in School Property Tax Revenue under Initiative #25**

<b>Tax Year</b>	<b>2020</b>	<b>2021</b>
<b>Fiscal Year</b>	<b>FY 2020-21</b>	<b>FY 2021-22</b>
<b>Residential Property</b>		
Total Program Mill Revenue	\$0	\$80.3 million
Mill Levy Override Revenue	\$0	\$45.8 million
<b>Residential Total</b>	<b>\$0</b>	<b>\$126.1 million</b>
<b>Nonresidential Property</b>		
Total Program Mill Revenue	(\$232.9 million)	(\$247.3 million)
Mill Levy Override Revenue	(\$126.1 million)	(\$134.5 million)
<b>Nonresidential Total</b>	<b>(\$358.9 million)</b>	<b>(\$381.9 million)</b>
<b>Combined Impact</b>		
Total Program Mill Revenue	(\$232.9 million)	(\$167.0 million)
Mill Levy Override Revenue	(\$126.1 million)	(\$88.8 million)
<b>Total School Property Tax Revenue Impact</b>	<b>(\$358.9 million)</b>	<b>(\$255.8 million)</b>

**Workload - school districts.** The measure is likely to increase the costs and workload for school districts to document how revenue from 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.

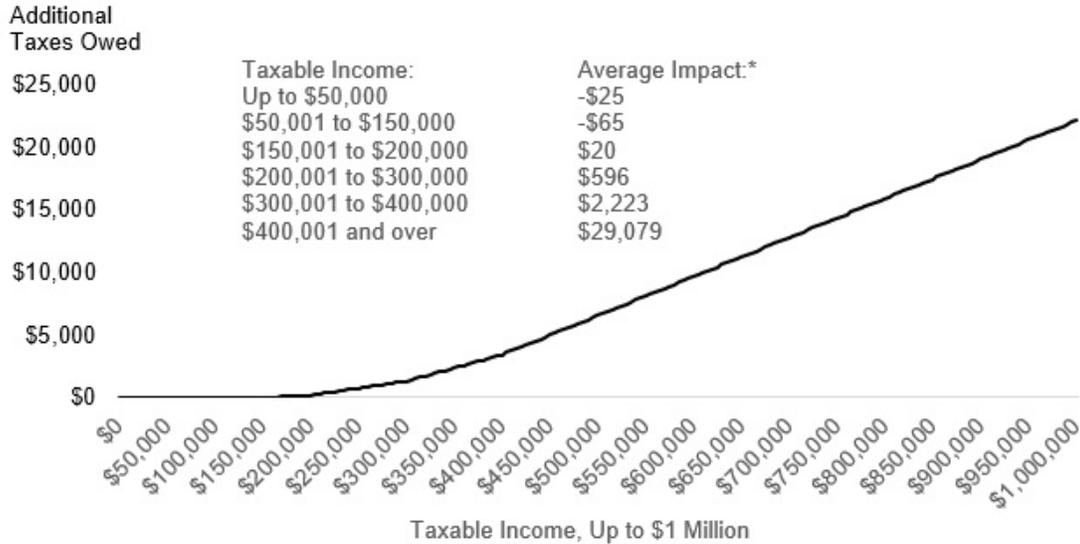
**Workload - county assessors.** The measure increases costs for county assessors to implement the new assessment rates for school district property taxes only. The measure establishes a parallel set of assessment rates for school districts compared with those used for other local government entities. Assessors will be required to update or change the 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.

**Economic Impact**

Additional spending on public education will increase employment, income, and spending in some industries and may increase economic opportunities for students. Many households and businesses will pay more in income taxes, reducing investment, spending, or saving elsewhere in the economy. Some lower income households will pay less, increasing investment or spending 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 are expected to pay an additional \$4,448 per year under the measure. On average, individual income taxpayers will pay an additional \$478 in taxes each year. Higher income taxpayers will pay a larger amount as a percent of their income, while those with income under \$150,000 will see a reduction in taxes owed, as shown in Figure 1.

**Figure 1  
 Individual Income Tax Increase Under Initiative #25**



Source: Legislative Council Staff calculations.

\*Averages are based on actual taxpayer data for tax years 2015 to 2017.

This measure may increase property taxes paid on residential property starting in 2021. Assuming the weighted average 2018 statewide school mill levy, property taxes will increase by \$13 for each \$100,000 in actual value. For a residential property valued at the 2017 statewide median of \$286,100, the measure will increase property taxes by about \$37 per year. The amount in additional taxes paid will depend on the residential assessment rate set by the General Assembly in 2019, the taxpayer's property value, and local district mill levies. Reducing the assessment rate from 29 percent to 24 percent for non-residential property will result in a 17.2 percent decrease in school property taxes paid, or by \$176 for each \$100,000 in actual value. The value of nonresidential property and local school mills determine school property taxes.

**Effective Date**

If approved by voters at the 2019 general election, this measure takes effect upon proclamation of the Governor, no later than 30 days after the official canvass of the vote is completed.

**State and Local Government Contacts**

Assessors Property Tax	Education Revenue	Law
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**Abstract of Initiative 25: FUNDING FOR PUBLIC SCHOOLS**

*The abstract includes estimates of the fiscal impact of the proposed 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.*

**This initial fiscal estimate, prepared by the nonpartisan Director of Research of the Legislative Council as of April, 2019, identifies the following impacts:**

**State revenue.** The measure increases net state revenue by \$673.9 million in FY 2019-20 (half-year impact) and \$1.4 billion in FY 2020-21. 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.** In FY 2020-21, the measure increases state expenditures by a minimum of \$1.6 billion, and up to a net \$2.0 billion.

**Local government and school district impact.** The measure increases local government revenue by a minimum of a minimum of \$1.6 billion and up to a net \$1.7 billion in FY 2020-21 in FY 2020-21, the first full year the measure is implemented. The net \$1.7 billion reflects \$2.0 billion in state revenue, and a \$359 million decrease in revenue from property taxes.

**Economic impacts.** Additional spending on public education will increase employment, income, and spending in some industries and may increase economic opportunities for students. Many households and businesses will pay more in income taxes, reducing investment, spending, or saving elsewhere in the economy. Some lower income households will pay less, increasing investment or spending 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 are expected to pay an additional \$4,448 per year under the measure. On average, individual income taxpayers will pay an additional \$478 in individual income taxes each year. Higher income taxpayers will pay a larger amount as a percent of their income, while those with income under \$150,000 will see a reduction in taxes owed, as shown in Table 1.

**Table 1  
 Individual Income Taxpayer Impacts Under Initiative #25**

<b>Taxpayers with taxable income ranging from...</b>	<b>2020 Filers Impacted</b>	<b>Average 2020 Tax Increase Per Taxpayer*</b>
\$0 and \$50,000	1,526,174	-\$25
\$50,001 and \$150,000	631,474	-\$65
\$150,001 and \$200,000	75,243	\$20
\$200,001 and \$300,000	57,996	\$596
\$300,001 and \$400,000	23,556	\$2,223
Over \$400,000	38,510	\$29,079

\* Actual tax liability may vary based on state income tax credits. Negative amounts indicate a tax decrease.

This measure may increase property taxes paid on residential property starting in 2021. Assuming the weighted average 2018 statewide school mill levy, property taxes will increase by \$13 for each \$100,000 in actual value. For a residential property valued at the 2017 statewide median of \$286,100, the measure will increase property taxes by about \$37 per year. The amount of additional taxes paid will depend on the residential assessment rate set by the General Assembly in 2019, the taxpayer's property value, and local district mill levies. Reducing the assessment rate from 29 percent to 24 percent for non-residential property will result in a 17.2 percent decrease in school property taxes paid, or by \$176 for each \$100,000 in value. The value of nonresidential property and local school mills determine school property taxes.