Colorado Legislative Council Staff

SB17-119

FINAL FISCAL NOTE

FISCAL IMPACT: ☒ State ☒ Local ☐ Statutory Public Entity ☐ Conditional ☐ No Fiscal Impact

Drafting Number: LLS 17-0701
Prime Sponsor(s): Sen. Court

Date: May 15, 2017
Bill Status: Postponed Indefinitely
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BILL TOPIC: RESTORATION OF SCHOOL DISTRICT MILL LEVIES

Fiscal Impact Summary	FY 2017-2018	FY 2018-2019	FY 2021-2022
State Revenue			
State Expenditures	**($215,607,044)**	**($419,290,246)**	**($983,064,939)**
General Fund	($215,607,044)	($419,290,246)	($983,064,939)
Appropriation Required: ($215,607,044) - Department of Education (FY 2017-18)			
Future Year Impacts: Ongoing expenditure impact.			

NOTE: This bill was not enacted into law; therefore, the impacts identified in this analysis do not take effect.

Summary of Legislation

This bill requires each school district that has obtained voter approval to retain and spend revenue in excess of its TABOR limit to restore the district's total program mill levy, over the course of five years in equal increments, to the number of mills levied in the property tax year immediately preceding the year in which the school district received voter approval (target level). A school district is not allowed to levy a mill that exceeds the school district's total program as calculated before application of the negative factor.

Background

TABOR Amendment. Approved by voters in 1992, the TABOR amendment to the Colorado Constitution contains several provisions that affect the operational funding of school districts. The following are the most pertinent elements:

- TABOR limits the amount of revenue that can be collected and retained by school districts in a given year. The limit is equal to the prior year's revenue increased by inflation plus student enrollment growth; and

- TABOR requires voter approval for an increase in a district's mill levy.

TABOR thus limits the amount of revenue that a school district can retain and spend. Districts that exceed this limit must refund any revenue collected over the limit to local taxpayers, unless they receive voter approval to keep the amount over the limit. Because state aid is counted as TABOR revenue for a school district and this revenue has often grown faster than inflation plus enrollment growth, all but four of the 178 school districts have sought and received voter approval to retain additional revenue above the limit. Of these 174 districts, 156 districts obtained voter approval in elections between 1995 and 1999. Four districts, Cherry Creek, Colorado Springs, Harrison, and Steamboat Springs have not obtained voter approval.

While most school districts have received approval to keep revenue above the TABOR limit, the General Assembly has incorporated the TABOR provision that school district property taxes can only increase by inflation plus enrollment growth into the statutory language of the school finance act. When property tax revenue exceeds this limit, a school district has to reduce its mill levy to keep property tax revenue within this limit. This decline in mill levies caused school district revenue to "ratchet down" whenever property values were insufficient to maintain school finance property taxes at the TABOR limit. When school district mill levies decrease, they cannot later be increased without voter approval.

Mill Levy Freeze (Senate Bill 07-199). Senate Bill 07-199, made two specific changes to the method of calculating school district mill levies. First, school district mill levies were capped at 27 mills. For districts with a levy greater than 27 mills, the bill reduced tax rates and district property tax revenue. Second, the bill required districts that had received voter approval to retain revenue above their TABOR limit to impose the prior year's mill levy. For these districts, this provision effectively "froze" mill levies at FY 2006-07 levels. Mill levies could only decline for districts that had not received voter approval or districts where assessed values increased sufficiently such that, at their existing mill levy, collections would exceed the district’s total program.

State Expenditures

The bill is expected to potentially decrease state expenditures by $215.6 million in FY 2017-18 and $419.3 million in FY 2018-19.

School Finance. Under current law, the money to fund the school finance act comes from a combination of local and state sources. The local share, primarily from property tax revenue, is counted first. State aid provides the difference between a district's total program funding calculated using the school finance formula and the district's local share. In school finance, this concept of state assistance supplementing local resources is called "equalization."

By requiring the total program mill levy for 174 school districts to incrementally increase over a five-year period to the target level, SB 17-119 will increase the amount of property taxes collected, and therefore the amount of revenue available for the local share of school finance by $215.6 million in FY 2017-18, $419.3 million in FY 2018-19, and increasing amounts in subsequent years. Increasing the local share relieves pressure on state equalization, and decreases the costs of state aid under the Act. Current law allows the state to reduce the amount of state aid provided to schools, through application of the negative factor, to meet the state's budgetary limitations. This presents a range of options for the General Assembly. The legislature may choose to maintain the negative factor at its current value and reduce state aid correspondingly, decrease the negative factor by the full amount of the increase in local property taxes, or any combination in between.

Table 1 below provides information of the bill's impact on the average total program mill levy, the incremental increase in property tax revenue, and the potential decrease in state aid anticipated to occur over the 5-year phase-in period. Currently, the average total program mill levy across all school districts is 19.730.

Table 1. Average Total Program Mill Levies, Incremental Property Tax Revenue, and Reduction in State Funding Under Senate Bill 17-119 (Assumes Constant Negative Factor of $828.3 million)

	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22
Avg Mill Levy	22.678	25.480	28.168	30.793	33.325
Prop. Tax Rev.	$215,607,044	$203,683,202	$192,903,588	$187,959,630	$182,911,475
State Share	($215,607,044)	($203,683,202)	($192,903,588)	($187,959,630)	($182,911,475)
Change in Cumulative State Share	($215,607,044)	($419,290,246)	($612,193,834)	($800,153,464)	($983,064,939)

It should be noted that the numbers above do not allow for increases in either enrollment or inflation. With enrollment increases and inflation, mill levies for districts that are fully locally funded below target levels will have to rise to higher levels than they would otherwise. Thus the average mill levies and associated increases in property tax revenue indicated above are understated. It should also be noted that the estimates in this fiscal note assume passage of Senate Bill 17-173, the 2017 Department of Education supplemental bill.

School District Impact

By requiring school district mill levies to increase incrementally over the next five years to the target level, Senate Bill 17-119 will increase property tax revenue used to support district total program in the amounts shown in Table 1 above.

As Table 1 demonstrates, the incremental increases in the amounts of additional property tax revenue (and thus the potential reductions in state aid requirements) will decline over the 5-year period. This is because Senate Bill 17-119 specifies that school districts are not allowed to levy mills in excess of the amount required to fully fund a district's total program before application of the negative factor. Over the 5-year phase in period, 25 districts become fully locally funded at a level below the target level, and consequently would receive no state aid beyond this point. Table 2 below provides information on these 25 districts, including their current total program mill levies, the mill level at which they become totally locally funded, and the year they are projected to reach this level according to the phase-in schedule of the bill.

Table 2. Estimated Total Program Mill Levy at which the District Becomes Fully Locally Funded under Senate Bill 17-119*

District	Current	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22
Clear Creek	12.481	15.214				
DeBeque	3.430	9.130				
Meeker	5.767	10.150				
Prairie	5.145	6.365				

Table 2. Estimated Total Program Mill Levy at which the District Becomes Fully Locally Funded under Senate Bill 17-119* (Cont.)

District	Current	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22
Pawnee	4.293	5.399				
Dolores	15.559		20.569			
Estes Park	20.549		25.542			
Wiggins	24.545		28.046			
Keensburg	10.845		20.035			
Platte Valley	5.624		11.297			
East Grand	11.775			20.442		
Park	12.173			19.218		
Cripple Creek	11.505			14.416		
Fort Lupton	12.143			20.431		
Briggsdale	11.565			20.498		
Parachute	2.231				16.399	
Creede	20.453				33.085	
Aspen	4.412				6.584	
Gilcrest	6.200				19.121	
Westcliffe	22.903					37.254
Lake	23.469					43.238
Ignacio	2.274					28.748
Genoa-Hugo	17.087					38.051
Plateau	11.450					34.433
Silverton	10.965					33.008

** Mill levy estimates are based on FY 2017-18 and do not account for enrollment increases or inflation.*

Effective Date

The bill was postponed indefinitely by the Senate State, Veterans, and Military Affairs Committee on February 13, 2017.

State Appropriations

For FY 2017-18, this bill requires a General Fund appropriations reduction of $215,607,044 to the Department of Education for the state share of district total program.

State and Local Government Contacts

Education School Districts