Colorado Legislative Council Staff

Initiative #73

INITIAL FISCAL IMPACT STATEMENT

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LCS TITLE: FUNDING FOR PUBLIC SCHOOLS - INITIATIVE 73

Fiscal Impact Summary	FY 2018-2019	FY 2022-23
State Revenue		
State Expenditures		**up to $2.4 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 related to funding for public education.

General. Under current law, the state must provide a free, thorough, and uniform public education to all Colorado residents between the ages of six and 21. The measure removes the minimum age and includes a declaration that every resident through the age of 21 should be able to receive an early-childhood, primary, and secondary education. It specifies that educational opportunities from preschool through high school must be available on a thorough, uniform, consistent, and equitable basis.

Funding levels. The measure requires that statewide funding for public education be maintained at a percent of the total statewide personal income of Colorado residents that is no less than the national average of the percent of statewide personal income dedicated to public education, as determined by the U.S. Bureau of Census. This level of funding must be attained by FY 2022-23 and maintained thereafter. Any future ballot measure to increase this mandated level of funding requires only a majority vote in a statewide general election.

Tax and spending limitations. As deemed necessary to ensure that adequate state and local resources are available for school finance, the measure allows the General Assembly to enact changes to taxation and spending that would not be permitted under the current constitution. Specifically, the measure overrides the restrictions placed on the General Assembly in the Gallagher Amendment and the TABOR Amendment of the constitution. These restrictions are described below.

Gallagher Amendment. Under current law, the Gallagher Amendment requires biennial changes in the property tax assessment rate for residential property as is necessary to preserve a constant ratio between assessed residential property values and nonresidential property values assessed at a 29 percent rate. In combination with TABOR, this provision has required reductions in the residential assessment rate, reducing the property tax base available to school districts and other local governments.

The measure overrides this restriction as the General Assembly deems necessary to ensure that adequate state and local resources are available for school finance. It permits the General Assembly to hold the residential assessment rate constant in cases where it would otherwise be required to fall, effectively increasing property tax revenue. It permits the General Assembly to adopt a higher assessment rate for residential or nonresidential property than is used under current law.

TABOR Amendment. Under current law, the TABOR Amendment imposes a variety of restrictions on the General Assembly. The General Assembly may not impose new taxes, raise tax rates, or incur multi-year debt without obtaining voter approval in advance. Revenue collected in excess of an annual limit must be refunded to taxpayers and cannot be spent or saved. Certain types of taxes, including a statewide property tax, a local income tax, or an income tax assessed at graduated rates, are prohibited. Ballot measures to increase taxes are subject to certain election provisions, including the preparation of advance revenue estimates, and the resulting revenue must be refunded if estimates are exceeded.

The measure overrides these restrictions as the General Assembly deems necessary to ensure that adequate state and local resources are available for school finance. It permits the General Assembly to impose new taxes or raise tax rates without voter approval. It permits the General Assembly to budget revenue collected in excess of the TABOR limit for expenditure on school finance, foregoing refunds to taxpayers. It allows the General Assembly to direct local school districts to raise their mill levies without voter approval, effectively increasing local school district funding.

Reporting requirements. The measure requires that the General Assembly prepare a report every five years that identifies and evaluates the steps taken to meet the goals of the measure, and the cost and the manner of implementation, and provides recommendations to address any shortcomings.

State Expenditures

Beginning in FY 2022-23, the measures increases state expenditures by up to $2.4 billion.

School finance. Beginning in FY 2022-23, the measure requires that spending for public education equal or exceed the national average percentage of personal income spent on public education. This provision will require an estimated increase of $2.4 billion in school finance expenditures relative to what would otherwise be spent in FY 2022-23 under current law.

The measure does not specify a revenue source for the additional school finance expenditures. The General Assembly could choose to increase state funding by diverting existing funds from other programs or by increasing state revenue. A portion may also be generated at the local level, as the measure allows the General Assembly to direct school districts to increase their contributions to school finance by increasing local revenue, as discussed below.

Assumptions. The U.S. Census Bureau annually publishes estimates of expenditures for public K-12 education for each state. The Census Bureau estimates include a broader collection of education expenses than those included in the Colorado school finance formula, including for example federal funds and revenue from local school district mill levy overrides. Table 1 presents actual Census Bureau estimates for FY 2014-15 public K-12 education expenses in the U.S. and

Colorado, as well as Legislative Council Staff estimates for FY 2022-23 under current law if all Census spending sources are included. The FY 2022-23 nationwide education expenses as a percentage of personal income was estimated based on historical trends. The FY 2022-23 education expenses for Colorado were derived by applying historical growth rates to estimated expenses in the current fiscal year.

Table 1. Current Law Spending on Public K-12 Education in the U.S. and Colorado

	FY 2014-15 Published Census Estimates	**FY 2022-23** LCS Estimates
K-12 Education Expenses in U.S.	$567.7 billion	not estimated
Expressed as % of Personal Income	*3.80 percent*	*3.35 percent*
K-12 Education Expenses in Colorado	$8.1 billion	$10.7 billion
Expressed as % of Personal Income	*3.03 percent*	*2.73 percent*

Source: U.S. Census Bureau and Legislative Council Staff. Values for education expenses are broader than those included in the Colorado school finance formula because they include federal funds, mill levy overrides, and other types of spending.

As shown in Table 1, the percentage of U.S. and Colorado personal income expended for public K-12 education is expected to fall through FY 2022-23, reflecting a downward trend where education expenditures have historically grown more slowly than personal income. Expectations for Colorado personal income assume the September 2017 Legislative Council Staff forecast through 2019 and are grown in subsequent years by a compound average annual growth rate for personal income during the current business cycle. If Colorado personal income totals $392.2 billion in 2022, and the measure requires that total public K-12 spending in Colorado equal 3.35 percent of personal income, then total expenditures of $13.1 billion will be required in FY 2022-23. Under current law, total expenditures for public education are expected to total $10.7 billion.

Therefore, the measure requires $2.4 billion in additional federal, state, and/or local expenditures such that total spending for public education reaches $13.1 billion. This estimate of the additional spending may be more or less than $2.4 billion if current law spending, average U.S. expenditures, or Colorado personal income differ from these projections.

Additional funded pupils. To the extent that specifying that a free public education must be provided to all Colorado residents through the age of 21 results in additional funded pupils, either who are under the age of six or are at the age of 21, expenditures will increase. This analysis assumes that funding for this purpose will be included within the $2.4 billion in education funding required by this measure.

Reporting requirements. The measure increases the workload for Legislative Council to prepare the required report for the General Assembly every five years. The fiscal impact statement assumes that the report will be completed for the first time in FY 2023-24, five years after the effective date of the measure. No additional funding is required.

School District Impact

The measure increases revenue and expenditures for school districts by an estimated $2.4 billion. It is not known what portion of the additional expenditures may come from increased state funding, and what portion may be generated at the local level or through federal funding. The distribution of the additional funding among districts has not been estimated and will vary based on the current and future school finance models.

School districts are also permitted by the measure to implement directives of the General Assembly without regard to existing constitutional taxation and spending restrictions. Currently, residents in 174 of the state's 178 school districts have voted to exempt themselves from TABOR revenue limitations, but are still subject to other provisions of TABOR and the Gallagher Amendment. In addition, statutory limits on collection of property taxes prohibit school districts from collecting property tax revenue above the district's total program funding amount, as determined by the school finance formula.

Economic Impact

In order to increase funding for public education by $2.4 billion, state and/or local revenue must increase or spending in other areas of state government must decrease. The balance between these options will be determined by the General Assembly. Additional spending on public education will increase employment in some industries and may increase economic opportunities for students. If taxes increase, households and/or businesses will have less money after tax to invest, spend, or save elsewhere in the economy. Cutting spending in other areas of state government may reduce employment in some industries and/or reduce services to households and/or businesses.

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	Information Technology	Legislative Council Staff
Property Tax	Revenue	

Abstract of Initiative 73 - 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 Expenditures. Beginning in FY 2022-23, the measures increases state expenditures by up to $2.4 billion for school finance. The measure does not specify a revenue source for the additional school finance expenditures. The General Assembly could choose to increase state funding by diverting existing funds from other programs or by increasing state and local revenue.

School District Impact. The measure increases revenue and expenditures for school districts by an estimated $2.4 billion. A portion of the increased funding may be generated at the local level, as the measure allows the General Assembly to direct school districts to increase their contributions to school finance by augmenting local revenue.

Economic Impact. In order to increase funding for public education by $2.4 billion, state and/or local revenue must increase or spending in other areas of state government must decrease. The balance between these options will be determined by the General Assembly. Additional spending on public education will increase employment in some industries and may increase economic opportunities for students. If taxes increase, households and/or businesses will have less money after tax to invest, spend, or save elsewhere in the economy. Cutting spending in other areas of state government may reduce employment in some industries and/or reduce services to households and/or businesses.