Colorado Legislative Council Staff

Initiative # 98

INITIAL FISCAL IMPACT STATEMENT

Date: January 17, 2018

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LCS TITLE: FUNDING FOR PUBLIC SCHOOLS

Fiscal Impact Summary	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22
State Revenue				
State Expenditures	-	$4.2 billion	$5.1 billion	$6.1 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 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 the following percent of state and local personal income:

- at least 3.67 percent in FY 2019-20;
- at least 3.83 percent in FY 2020-21; and
- at least 4.0 percent beginning in FY 2021-22.

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 impact estimates. Actual resulting revenue must be refunded if the 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

The measures increases state expenditures by up to $4.2 billion in FY 2019-20, $5.1 billion in FY 2020-21, and $6.1 billion in FY 2021-22.

School finance. Under current law, it is projected that statewide funding for education will be $7.4 billion in FY 2019-20, $7.6 billion in FY 2020-21, and $7.9 billion in FY 2021-22. This projection includes total program funding after the application of the budget stabilization factor, as well as catagorical spending. It does not include mill levy overrides that may be authorized by voters in individual school districts.

The measure requires that spending for public education equal or exceed specified percentages of personal income. Under the measure, $11.6 billion in FY 2019-20, $12.7 billion in FY 2020-21, and $14.0 billion in FY 2021-22 must be spent on school finance expenditures. The estimated spending requirements are based on projected personal income from the December 2017 Legislative Council Staff forecast. It is assumed that spending requirements in a given fiscal year will be based on personal income in the previous calendar year for which data are available. For example, 2018 personal income will be used to calculate FY 2019-20 spending requirements.

Based on the above estimates for spending under current law and under the measure, state expenditures must increase by $4.2 billion in FY 2019-20, $5.1 billion in FY 2020-21, and $6.1 billion in FY 2021-22.

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.

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 $11.6 billion in FY 2019-20, $12.7 billion in FY 2020-21, and $14.0 billion in FY 2021-22 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 $4.2 billion in FY 2019-20, $5.1 billion in FY 2020-21, and $6.1 billion in FY 2021-22. 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 $4.2 billion in FY 2019-20, $5.1 billion in FY 2020-21, and $6.1 billion in FY 2021-22, 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.

Taxpayer Impacts. The measure loosens restrictions on increasing state or local revenue for public education. To the extent that the General Assembly increases revenue or directs school districts to increase their contributions to school finance as a result of this change, taxpayers may see an increase in taxes.

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 98: 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 Expenditures. The measure requires an estimated increase of $4.2 billion in FY 2019-20, $5.1 billion in FY 2020-21, and $6.1 billion in FY 2021-22 in school finance expenditures relative to what would otherwise be spent in each year 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 and local revenue.

School District Impact. The measure increases revenue and expenditures for school districts by an estimated $4.2 billion in FY 2019-20, $5.1 billion in FY 2020-21, and $6.1 billion in FY 2021-22. 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.

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