2nd Draft

#137 - Funding for Public Schools

The proposed amendment to the Colorado Constitution:

- repeals required funding increases to public schools and the income tax transfer to the State Education Fund after June 30, 2011;
- before the repeal, allows the legislature to delay a portion of the required funding increases to public schools if the economy grows slowly; and
- takes effect only if voters approve Amendment __, which changes constitutional limits on the amount of money that state and local governments may keep and spend.

Background

Current law. Amendment 23 modified the state constitution to require funding increases for preschool through twelfth grade public education beginning in school year 2001-02. It guarantees increases for basic school funding and special purpose programs. For the first ten years, it guarantees an increase of at least one percentage point above the rate of inflation. The one percentage point equals $60 to $70 per pupil each year. By the tenth year, funding for public schools from the one percentage point increase is estimated to represent about ten percent of total funding for public schools at that time. After ten years, funding must increase by at least the rate of inflation.

Amendment 23 also requires the state to transfer a portion of income taxes to the State Education Fund. Money in the fund can be used to pay for the required funding increases and for other education programs, such as a class size reduction or expanding preschool and kindergarten programs. The income tax transfer averaged $250 million in each of the last three years.

Public schools receive money from the state and from local property taxes. The TABOR amendment in the constitution restricts local property taxes for public schools. At the same time, Amendment 23 guarantees minimum increases for total school funding. As a result, state funding for public schools has been growing at a faster rate than the state budget, and lawmakers have less discretion over budget decisions.

Proposed changes to current law. This proposal allows the legislature to suspend all or a portion of the required one percentage point above inflation for school funding if state personal income grows less than 4.5 percent. Since 1970, state personal income grew less than 4.5 percent three times: in 2001, 2002, and 2003. Personal income is a measure of economic activity in the state. It includes all of the money that individuals earn or receive. The one percentage point increase for schools would be extended by one year each time it is suspended. This extension guarantees funding increases of "inflation plus one" for a minimum of ten years, the original time frame established by Amendment 23.

If there is no suspension, the proposal repeals Amendment 23 after June 30, 2011, eliminating all required funding increases for public education and the income tax transfer to the State Education Fund. The income taxes that are now earmarked for education would become available for any program or service, including education. Today, about 11 percent of state money for basic school funding and specific purpose programs comes from the State Education Fund.

Arguments For

1) The proposal gives the legislature more flexibility to balance the budget in bad economic times, yet guarantees the full ten years of the additional one percent above inflation for schools. During the recession in 2002-03, the legislature increased state education spending by $240 million while cutting funding for other programs by about $245 million. If this proposal had been in effect that year, about $50 million would have been available for the legislature to allocate, either for education or to reduce cuts to other programs. Suspending the one percent increase when other services are in danger of being cut is a reasonable way to balance revenue downturns with education spending.

2) The proposal ensures that schools receive the most important funding increases in Amendment 23. After ten years, the one percent "catch-up" provision will provide an additional $500 million per year to public schools. Further, priorities for state services change over time, and constitutional requirements for particular programs limit the ability of elected officials to respond to those changes. Repealing the constitutional spending requirements, after Amendment 23's main goal has been met, will return the responsibility of setting budget priorities to elected officials.

Arguments Against

1) The additional one percent increase for public schools is necessary regardless of downturns in the state economy. It allows public schools to make up for funding increases of less than inflation in the early 1990s. By suspending the one percent, the proposal further delays the ability of schools to catch-up in terms of teacher salaries, program needs, and new educational innovations.

2) The repeal of the minimum funding requirements and the State Education Fund transfer could result in less money for education than the constitution currently requires. A well-educated workforce is key to continued economic growth in the state. Many programs, such as public safety, health care, and federal mandates, compete with public schools for state money. Maintaining the minimum growth rate of inflation in the

constitution ensures that public schools receive a reasonable increase and are given priority in the state budget.

Estimate of Fiscal Impact

This proposal permits the legislature to suspend a portion of the required increase in school funding if personal income grows less than 4.5 percent per year. Projections by state officials suggest that growth in personal income will not fall below 4.5 percent during the next six years. Therefore, this proposal is not expected to change the funding requirements for public schools through budget year 2010-2011. After June 30, 2011, the proposal will remove all education funding requirements and eliminate the income tax diversion to the State Education Fund.