

**Initiative #22**  
**Funding for Public Schools**

1 Amendment ? proposes amending the Colorado Constitution and the Colorado  
2 Statutes to change how the state funds public preschool through twelfth grade (P-12)  
3 education by increasing the amount of money available, requiring that a fixed  
4 percentage of revenue from certain state taxes be annually set aside for schools, and  
5 revising how the state distributes funding to school districts. Specifically, the measure:

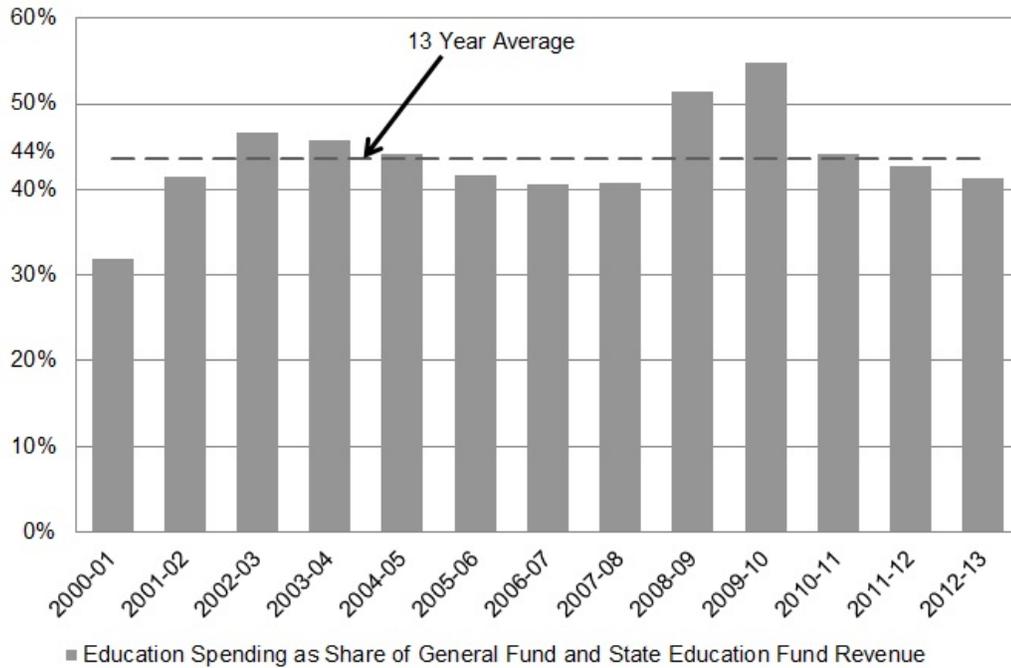
- 6 ♦ requires that 43 percent of state income, sales, and excise tax  
7 revenue, collected at existing tax rates, be set aside annually to pay  
8 for public education;
- 9 ♦ raises the state income tax rate from 4.63 percent to 5.0 percent on  
10 the first \$75,000 of taxable income and to 5.9 percent on taxable  
11 income over \$75,000 and deposits the additional tax revenue into a  
12 separate fund to pay for public education;
- 13 ♦ repeals the constitutional requirement that base per pupil funding for  
14 public education increase by at least the rate of inflation annually;  
15 and
- 16 ♦ implements legislation passed by the state legislature creating a  
17 new formula for allocating state and local funding to school districts.

18 **Background**

19 ***Who pays for P-12 public education?*** P-12 public education is primarily paid  
20 from state and local taxes on individuals and businesses. State funding primarily  
21 comes from income taxes and sales taxes. Local funding primarily comes from  
22 property taxes and vehicle ownership taxes. In budget year 2011-12, state funding  
23 accounted for 37 percent, local funding for 41 percent, and other sources accounted  
24 for 22 percent of P-12 public education funding.

25 P-12 public education is the single largest element of the state operating  
26 budget. Since budget year 2000-01, the share of tax revenue to the state's General  
27 Fund and State Education Fund spent on P-12 public education has ranged from 32 to  
28 55 percent, and averaged 44 percent over this period. Figure 1 displays the P-12  
29 public education funding as a percent of total revenue to these funds for budget  
30 years 2000-01 through 2012-13, and the overall average during this period.

1 **Figure 1. Share of State Budget Dedicated to P-12 Public Education**  
 2 **Budget Years 2000-01 to 2012-13**

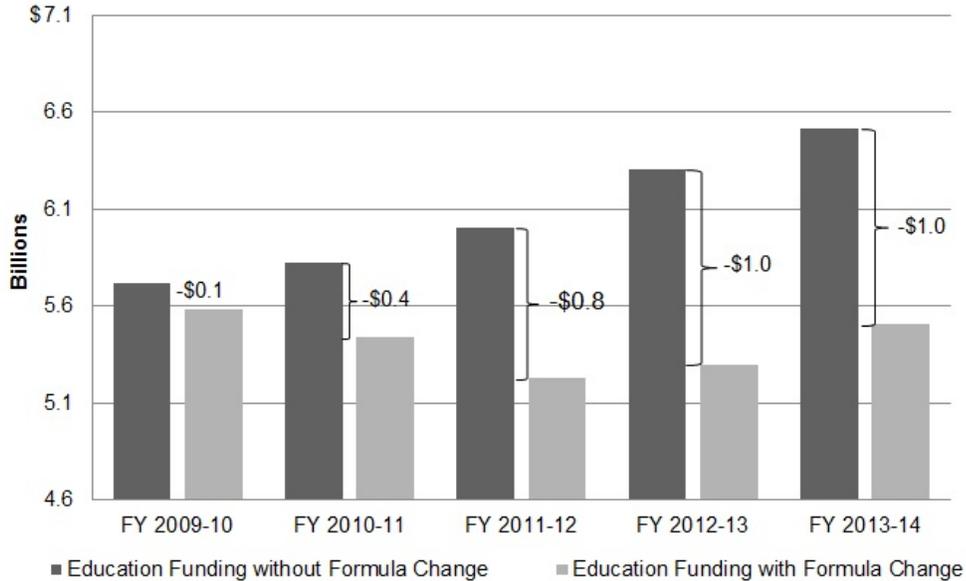


22 Currently, funding for each school district is set through a formula in state  
 23 statute and by requirements of the state constitution. Each school district begins with  
 24 the same amount of funding per student, known as base per pupil funding. The base  
 25 funding amount is then adjusted upward for each school district, depending on  
 26 particular district characteristics, to determine a final per pupil funding amount. These  
 27 characteristics include the total number of students, the local community's cost of  
 28 living, and the number of students from lower income households.

29 The state constitution requires that the base funding amount increase every  
 30 year by at least inflation. The constitution also creates the State Education Fund and  
 31 requires that about 7.2 percent of all income tax revenue be placed in this fund to  
 32 support the annual increase in base per pupil funding.

33 The recent recession reduced the overall amount of state and local tax  
 34 revenue available for P-12 public education funding. The decline in state revenue  
 35 caused the legislature to change the funding formula to reduce the amount of money  
 36 going to school districts in each of the past four years. Figure 2 shows the actual  
 37 funding in each of the last four budget years, and the funding amount had the formula  
 38 not been changed. For example, in budget year 2013-14, funding was reduced by  
 39 about \$1.0 billion.

1 **Figure 2. Education Funding Reductions from Funding Formula Changes**  
 2 **Budget Years 2009-10 through 2013-14**  
 3 **(in Billions)**



22 **How Does Amendment ? Affect P-12 Public Education Funding?**

23 **Establishes a minimum level of education funding.** The measure requires  
 24 that 43 percent of state income, sales, and excise tax revenue, collected at existing  
 25 tax rates, be annually dedicated to education-related spending. This effectively  
 26 establishes a constitutional minimum funding level for education roughly equal to the  
 27 share of the state's operating budget that has recently been spent on P-12 public  
 28 education (see Figure 1). The measure also removes the existing constitutional  
 29 requirement that the base per pupil amount increase annually by at least inflation.

30 **Provides additional revenue for public education.** The measure increases  
 31 the state income tax rate to create new revenue for P-12 public education. Currently,  
 32 Colorado taxpayers pay a flat individual income tax rate of 4.63 percent. In 1987, the  
 33 state moved from a graduated income tax structure to a single tax rate of 5.0 percent.  
 34 This rate was reduced to 4.63 percent in 2000. Beginning in tax year 2014,  
 35 Amendment ? establishes a two-tiered income tax rate. Income tax rates will increase  
 36 from 4.63 percent to 5.0 percent on the first \$75,000 of taxable income, and to  
 37 5.9 percent on taxable income above the \$75,000 threshold. The state legislature  
 38 may adjust this income threshold annually by inflation.

39 Imposition of this two-tiered tax rate is estimated to increase individual income  
 40 tax revenue to the state by \$950 million in the first year. This new revenue must be  
 41 placed in the State Educational Achievement Fund created by this measure, and may  
 42 be used only to fund P-12 public education. The new revenue is exempt from state  
 43 and school district spending limitations contained in the state constitution.

1 The two-tiered tax rate structure will have different impacts on taxpayers,  
 2 depending on their income levels. Table 1 shows the estimated change in the yearly  
 3 income tax liability for three representative households with different income levels.

4 **Table 1. Income Tax Increases for Representative Households under**  
 5 **Amendment ?**

	Gross Income	Colorado Taxable Income*	Current Law State Tax Liability	Amendment ? State Tax Liability	Amount of Annual Increase
Household A	\$50,000	\$26,300	\$1,218	\$1,315	\$97
Household B	\$100,000	\$65,600	\$3,037	\$3,280	\$243
Household C	\$150,000	\$109,900	\$5,088	\$5,809	\$721

6  
7  
8  
9  
10  
11  
12 \* Taxable income totals for individual households may vary from the averages displayed in Table 1.

13 **Changes to the school district funding formula.** Passage of Amendment ?  
 14 replaces the current statutory formula used to allocate state and local funding to  
 15 school districts. Amendment ? triggers implementation of Senate Bill 13-213, enacted  
 16 during the 2013 legislative session and signed by the Governor. The bill's allocation  
 17 formula also begins with a base per pupil amount, but it changes how the base is  
 18 adjusted to place more emphasis on students who are at-risk of academic failure,  
 19 defined as students eligible for free- or reduced-price lunch through the federal School  
 20 Lunch Program, or are English language learners. School districts with a higher  
 21 percentage of these students will receive more money per student than other districts.

22 Senate Bill 13-213 also changes the way that school districts calculate student  
 23 enrollment. Under current law, student enrollment is based on a count that occurs  
 24 once during a specified period in October. Under Senate Bill 13-213, student  
 25 enrollment is based on average daily enrollment throughout the school year.

*For information on those issue committees that support or oppose the measures on the ballot at the November 5, 2013, election, go to the Colorado Secretary of State's elections center web site hyperlink for ballot and initiative information:*

*[www.sos.state.co.us/pubs/elections/Initiatives/InitiativesHome.html](http://www.sos.state.co.us/pubs/elections/Initiatives/InitiativesHome.html)*

1           **Arguments For**

2           1) Investing in public education is the best way to ensure a strong Colorado  
3 economy capable of competing in today's global market. One of the top priorities of  
4 businesses seeking a new location is identifying a well-educated workforce. State  
5 funding for P-12 public education has been severely reduced over the last four years.  
6 Since budget year 2008-09, the state legislature has cut P-12 funding, with funding for  
7 the 2013-14 school year \$1.0 billion below what it would have been without legislative  
8 changes to the formula. Restoring this funding shortfall not only benefits the state's  
9 schools, but it also provides a strong positive signal to companies looking to relocate  
10 or expand in Colorado.

11           2) This measure implements a more equitable system for distributing  
12 P-12 public education funding. By relying on the average daily enrollment of students,  
13 the new law provides needed incentives for school districts to retain students  
14 throughout the year. Under the new allocation formula, additional financial resources  
15 are distributed to districts with students who are at-risk of dropping out of school or are  
16 English language learners. The new law also appropriately targets investment in early  
17 childhood education by providing funding for full-day kindergarten and increased  
18 preschool funding.

19           3) The measure simultaneously restores funding to public schools that have  
20 suffered severe budget cuts, and provides taxpayers with needed accountability that  
21 the increased investment will have positive results. The state will be required to  
22 prepare a return on investment study and a cost study to identify funding deficits  
23 related to the performance of school districts and the academic achievement of  
24 students. The state will also make detailed expenditure data by school and district  
25 available to the general public, allowing for budgetary comparisons between schools.

26           **Arguments Against**

27           1) Amendment ? is a \$1 billion tax increase that may impede the economic  
28 expansion at a time when the state's economy is still recovering. Increasing state  
29 income taxes reduces the money that households have to spend or save. As a result,  
30 consumer spending and overall economic activity may also decline. A tax increase  
31 may also impede the competitiveness of Colorado businesses.

32           2) The state can implement the requirements of Senate Bill 13-213 without a  
33 tax increase by reprioritizing spending. In budget year 2012-13, state revenue was  
34 sufficient for the State Education Fund to receive a transfer from the General Fund  
35 surplus of \$1.1 billion. Another \$290 million is scheduled for transfer in budget year  
36 2013-14. The state clearly has adequate financial resources to implement Senate Bill  
37 13-213 without burdening taxpayers with a tax increase.

38           3) This measure creates more inequity in paying for P-12 public education.  
39 Taxpayers will pay at least 8.0 percent more to implement the new P-12 education  
40 formula. However, 60 of 178 school districts will see marginal increases in per pupil  
41 funding of less than 8.0 percent under Senate Bill 13-213. In addition, the funding

1 formula in the bill does not contain any performance based incentives for school  
2 districts, driven by academic achievement. A more equitable model would allocate  
3 money to school districts based on improving student assessments and outcomes,  
4 instead of allocating money based on English language proficiency or eligibility for free  
5 or reduced-price lunches.

## 6 **Estimate of Fiscal Impact**

7 *(Please Note: A summary of the fiscal impact will be included in this space in the*  
8 *second draft of the analysis, and an official fiscal note will be prepared and placed on*  
9 *the web when the final blue book is sent to voters.)*