3rd Draft

Initiative #22
Funding for Public Schools

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

- raises the state individual income tax rate from 4.63 percent to 5.0 percent on the first $75,000 of taxable income and to 5.9 percent on any taxable income over $75,000 and deposits the additional tax revenue in a separate fund to pay for public education;
- implements legislation passed by the state legislature creating a new formula for allocating state and local funding to school districts;
- repeals the constitutional requirement that base per pupil funding for public education increase by at least the rate of inflation annually; and
- requires that at least 43 percent of state income, sales, and excise tax revenue, collected at existing tax rates, be set aside annually to pay for public education.

Summary and Analysis

***Who pays for P-12 public education*?** In budget year 2012-13, about $5.5 billion of P-12 public education funding was paid from state and local taxes on individuals and businesses, including state income and sales tax and local property tax and vehicle ownership tax. Almost all of this revenue is allocated to school districts through a formula in state law. The rest provides state assistance for other programs, such as transportation and special education. Additionally, districts receive about $3.4 billion in revenue outside the funding formula, including local revenue raised by districts, federal moneys, private grants, and bond proceeds.

Formula funding for each school district begins with the same amount of funding per student, known as base per pupil funding. The base funding amount is then adjusted upward for each school district, depending on particular district characteristics, to determine a final per pupil funding amount. These characteristics include the total number of students, the local community's cost of living, and the percentage of students from lower-income households.

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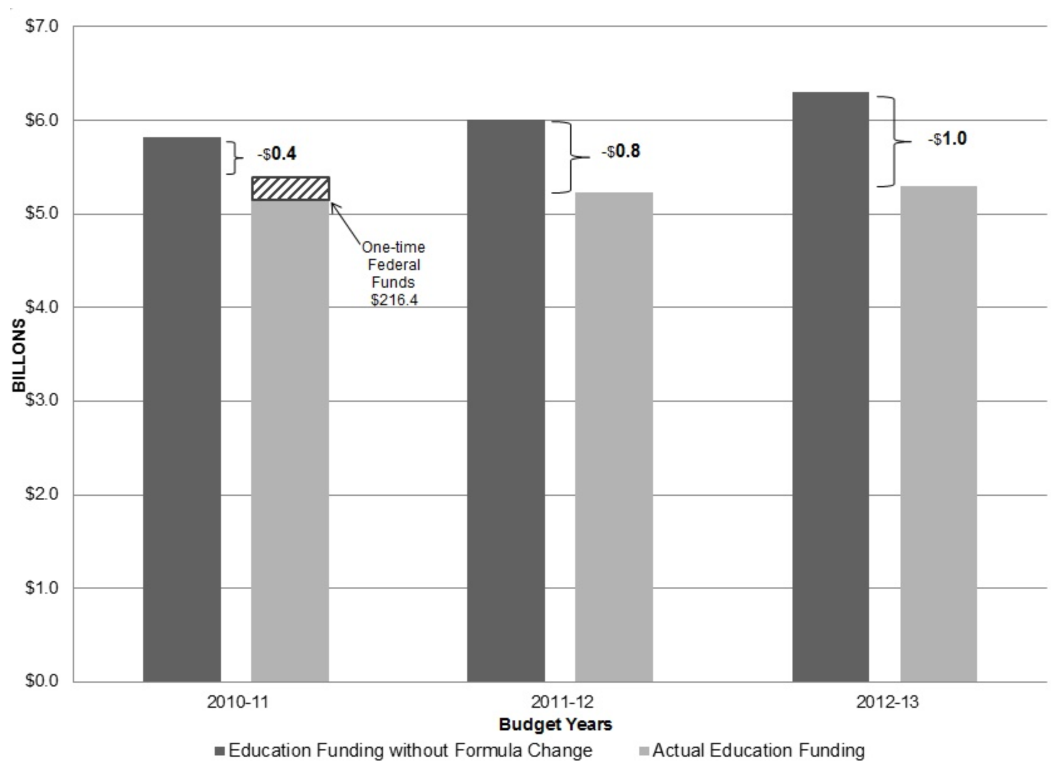
Currently, the state constitution requires that the base funding amount increase every year by at least inflation. The constitution also creates the State Education Fund and requires that about 7.2 percent of all income tax revenue be placed in this fund to support the annual increase in base per pupil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

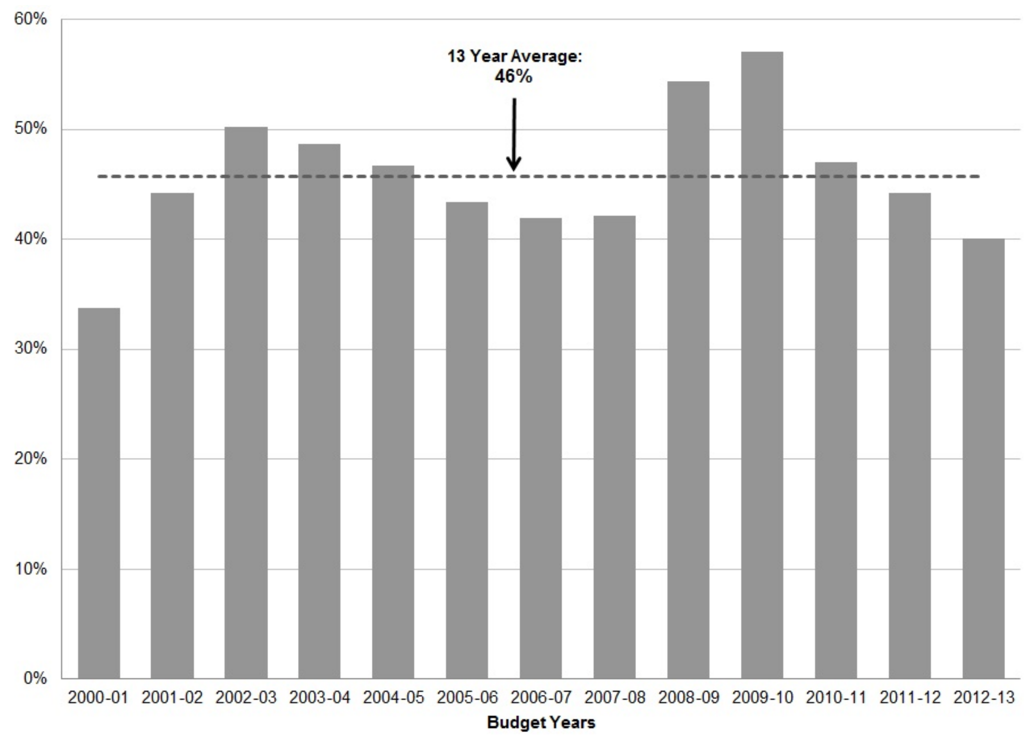
The recent recession reduced the amount of state and local tax revenue available for P-12 public education funding. In each of the past three budget years, the decline in state revenue caused the legislature to reduce the amount of state money going to school districts below what would have been required by the funding formula. Figure 1 compares formula funding and actual funding for each of the last three years. For example, in budget year 2012-13, funding was reduced by about $1.0 billion. In budget year 2010-11, federal stimulus money replaced $216 million of state formula funding.

Figure 1. Formula Funding Compared to Actual Funding
Budget Years 2010-11 through 2012-13
(in Billions)



Education in the state budget. P-12 public education funding is the largest piece of the state's operating budget. Since budget year 2000-01, the share of state income, sales, and excise tax revenue spent on P-12 public education has ranged from 34 to 57 percent, and averaged 46 percent. In the last budget year, this share was 40 percent. Figure 2 displays P-12 public education funding as a percent of total state income, sales, and excise tax revenue for budget years 2000-01 through 2012-13, and the overall average during this period.

Figure 2. Share of State Income, Sales, and Excise Tax Revenue Dedicated to Total P-12 Public Education Budget Years 2000-01 to 2012-13



Amendment ? establishes a minimum level of education funding. The measure requires that at least 43 percent of state income, sales, and excise tax revenue, collected at existing tax rates, be annually dedicated to education-related spending. This effectively establishes a constitutional minimum funding level for education that is slightly less than the average share that has been spent on P-12 public education over the last 13 years (see Figure 2); but is an increase from the portion allocated in the 2012-13 budget year. The measure also removes the existing constitutional requirement that the base per pupil amount increase annually by at least inflation, and eliminates the transfer of about 7.2 percent of income tax revenue to the State Education Fund.

Amendment ? increases taxes to provide additional revenue for public education. The measure increases the state individual income tax rate to create new revenue for P-12 public education. The measure does not affect the state corporate income tax rate. Currently, Colorado taxpayers pay a flat individual income tax rate of

4.63 percent. In 1987, the state moved from a graduated income tax structure to a single tax rate of 5.0 percent. This rate was reduced to 4.63 percent in 2000.

Beginning in tax year 2014, Amendment ? establishes a two-tiered income tax rate. Income tax rates will increase from 4.63 percent to 5.0 percent on the first $75,000 of state taxable income, and to 5.9 percent on any taxable income above the $75,000 threshold. The state legislature may adjust this income threshold annually by inflation.

Imposition of this two-tiered tax rate is estimated to increase individual income tax revenue to the state by $950 million in budget year 2014-15, the first full year of implementation. This new revenue must be placed in the State Educational Achievement Fund created by this measure, and may only be used to fund P-12 public education. The new revenue is exempt from state and school district spending limitations contained in the state constitution.

The two-tiered tax rate structure will have different impacts on taxpayers, depending on their household income. Table 1 shows the estimated change in the yearly state income tax liability for four representative households with different income levels. Under the new structure, an estimated 68 percent of households in Colorado will see their individual income taxes increase by 8 percent, while the remaining 32 percent will see increases at higher levels.

Table 1. State Individual Income Tax Increases for Representative Households under Amendment ?

	Gross Income	Colorado Taxable Income*	Current Law State Income Tax Liability	Amendment ? State Income Tax Liability	Amount of Annual Increase	Percent Annual Increase
Household A	$50,000	$26,300	$1,218	$1,315	$97	8 %
Household B	$100,000	$65,600	$3,037	$3,280	$243	8 %
Household C	$150,000	$109,900	$5,088	$5,809	$721	14 %
Household D	$200,000	$154,000	$7,130	$8,411	$1,281	18 %

* *Taxable income totals for individual households may vary from the averages displayed in Table 1.*

Amendment ? triggers a new funding formula in Senate Bill 13-213. Amendment ? replaces the current statutory formula used to allocate state and local funding to school districts. Amendment ? triggers implementation of Senate Bill 13-213, enacted during the 2013 legislative session and signed by the Governor. The bill's new allocation formula also begins with a base per pupil amount, but it changes how the base is adjusted. It places more emphasis on students who are at risk of academic failure, defined as students eligible for free- or reduced-price lunch through the federal School Lunch Program, or who are English language learners.

The bill also increases funding for kindergarten and preschool students, and allocates a portion of state P-12 education funding to help implement recent educational reforms passed by the state legislature. It also changes the way that school districts calculate student enrollment. Under current law, student enrollment is based on a count that occurs once during a specified period in October. Under Senate Bill 13-213, starting in the 2017-18 school year, student funding will be based on average daily enrollment throughout the school year.

The bill provides school principals with more control over how money will be spent in their schools. This is intended to help students who are deemed to be at risk of academic failure achieve academic targets. The bill also requires a periodic study of the increases in academic achievement resulting from the additional funding and a public, school-specific accounting of administrative and teacher expenses.

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 website hyperlink for ballot and initiative information:

www.sos.state.co.us/pubs/elections/Initiatives/InitiativesHome.html

Arguments For

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

2) One of the most important functions of government is to provide a high-quality education for children. To improve schools, the state needs a long-term solution that is innovative in approach, accountable for outcomes, and that provides transparency to taxpayers. This measure targets areas where research suggests that investments are likely to produce improved student outcomes: putting the best teachers in the classroom, reducing class sizes, investing in preschool and full-day kindergarten, upgrading classroom technology, and giving principals and teachers more control over budgeting decisions in their schools.

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

Arguments Against

1) Amendment ? is a $950 million tax increase that may impede economic expansion at a time when the state's economy is still recovering. Increasing state income taxes reduces the money that households have to spend or save. As a result, consumer spending and overall economic activity may also decline, negatively impacting the competitiveness of Colorado businesses. The state currently has adequate financial resources to implement Senate Bill 13-213 without a tax increase. The legislature set aside $1.1 billion and an estimated $290 million for P-12 public education in budget years 2012-13 and 2013-14, respectively. These recent set-asides are indicative of an expanding economy that may permit adequate investment in P-12 public education without additional tax revenue.

2) This measure imposes an additional tax burden on state taxpayers without any guarantee of increased academic achievement. Senate Bill 13-213 makes incremental changes to the school funding allocation formula without providing significant educational reform. Instead, the state could allocate money to school districts based on school choice and student achievement. Amendment ? leaves in place an outmoded system of delivering education that has proven increasingly costly without significant measurable improvements for students on state assessments.

3) This measure creates inequity in the funding of P-12 public education as taxpayers in some districts will pay more in new taxes than the district will receive in new revenue. All individuals will see a state income tax increase of at least 8.0 percent to implement the new P-12 education formula, and some will see substantially higher percentage increases. At the same time, under Senate Bill 13-213, 37 of 178 school districts will see increases in funding of less than 8.0 percent. Thus, the measure maintains a funding structure that uses tax revenue from some districts in order to subsidize P-12 education in other districts.

Estimate of Fiscal Impact

State revenue and spending. Amendment ? is expected to increase state tax revenue by $452 million in budget year 2013-14, $950 million in budget year 2014-15 (the first full year of implementation), and $1,013 million in budget year 2015-16. The amendment requires that all new revenue from the tax increase be used to fund P-12 public education.

Impact on taxpayers. The amendment increases individual income tax rates. Income tax rates for individual taxpayers will increase from 4.63 percent to 5.0 percent on the first $75,000 of state taxable income, and to 5.9 percent on state taxable income above the $75,000 threshold. The state legislature may adjust this income threshold annually by inflation.

This two-tiered tax rate structure will have different impacts on individual taxpayers, depending on their taxable income levels, as shown in Table 1. For instructions on estimating your household's anticipated tax changes under Amendment ?, please visit the online tax calculator at (web address to be provided).

State Spending and Tax Increases

The state constitution requires that the following fiscal information be provided when a tax increase question is on the ballot:

1) the estimated or actual state spending under the constitutional spending limit for the current year and each of the past four years with the overall percentage and dollar change; and
2) for the first full year of the proposed tax increase, an estimate of the maximum dollar amount of the tax increase and of state fiscal year spending without the increase.

Table 2 shows the dollar amount of state spending under the constitutional spending limit.

Table 2. State Spending

	Actual FY 2009-10*	Actual FY 2010-11	Actual FY 2011-12	Estimated FY 2012-13	Estimated FY 2013-14
State Spending	$8,568 million	$9,425 million	$10,273 million	$11,117 million	$11,501 million
Four-Year Dollar Change in State Spending: $2,934 million					
Four-Year Percent Change in State Spending: 34.2 percent					

**FY = fiscal year. The state's fiscal (or budget) year runs from July through June.*

The numbers in Table 2 show state spending from 2010 through 2014 for programs that were subject to the constitutional spending limit during those years. However, the constitution allows a program that operates similar to a private business to be exempt from the limit if it meets certain conditions. Because the exempt status of some programs has changed during the last five years, the numbers in Table 2 are not directly comparable to each other.

Table 3 shows the revenue expected from the increased income tax rate; state fiscal year spending without these taxes for FY 2014-15, the first full fiscal year for which the increase would be in place; and the sum of the two.

Table 3. Estimated State Fiscal Year Spending and the Proposed Tax Rate Increase

	FY 2014-15 Estimate
State Spending Without New Taxes	$12,084 million
Revenue from New Income Taxes	$950 million
State Spending Plus the New Taxes	$13,034 million