

Amendment 66

Colorado Legislative Council Staff
FISCAL IMPACT STATEMENT

Date: September 24, 2013

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BALLOT TITLE: FUNDING FOR PUBLIC SCHOOLS

Ballot Question: Shall state taxes be increased by \$950,100,000 annually in the first full fiscal year and by such amounts as are raised thereafter by amendments to the Colorado Constitution and the Colorado Revised Statutes concerning funding for preschool through twelfth-grade public education, and, in connection therewith, increasing the current state income tax rate on individuals, estates, and trusts, and imposing an additional rate so higher amounts of income are taxed at higher rates; requiring the resulting increases in tax revenues be spent only for improvements to preschool through twelfth-grade public education; allowing all tax revenues attributable to this measure to be collected and spent without future voter approval; requiring at least 43% of state sales, excise, and income tax revenues be deposited in the State Education Fund and repealing certain existing public education funding requirements?

Fiscal Impact Summary	Fiscal Year 2013-14	Fiscal Year 2014-15*	Fiscal Year 2015-16
State Revenue State Educational Achievement Fund	\$452.0 million	\$950.1 million	\$1.0 billion
State Spending General Fund State Educational Achievement Fund	up to \$452.0 million	\$201,986 up to \$950.1 million	\$71,339 \$1.0 billion

* The state's fiscal year runs from July 1 to June 30. Fiscal year 2014-15 is the first full fiscal year of increased tax collections.

Summary of Measure

Amendment 66 amends the Colorado Constitution and the Colorado Statutes to change how the state funds public preschool through twelfth grade (P-12) education. The amendment raises taxes to increase the amount of money available for public schools, changes how the state distributes funding to school districts, and requires 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;

- deposits the additional tax revenue from the tax rate change into the newly created State Educational Achievement fund;
- 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.

Background. The state's current income tax rate is 4.63 percent for both households and businesses, regardless of income level. In 1987, the state moved from a graduated income tax rate to a single tax rate, which was initially set at 5.0 percent. This rate was reduced to 4.75 percent in 1999, and reduced again to 4.63 percent in 2000. This measure increases the individual income tax rate. For assistance estimating your household's anticipated tax changes under Amendment 66, please visit the online tax calculator at: www.colorado.gov/lcs/taxestimator.

Funding for public education comes from multiple sources, primarily state and local tax collections, and some federal funds. The bulk of funding is distributed under the provisions of the School Finance Act of 1994 (SFA). Local school districts may also raise money above what is required under the act. For example, with voter approval, districts may raise and spend property taxes for operating expenses, or enter into bonded debt for capital expenses. Districts also receive state funds through a variety of programs designed to serve special groups of students or student needs, known as categorical programs. State appropriations also help fund the Colorado Department of Education and other administrative functions, such as the Colorado Student Assessment Program.

Fiscal Impact

Amendment 66 will increase state revenue from taxes, most of which will be distributed to public school districts and charter schools under the provisions of Senate Bill 13-213.

State revenue. Amendment 66 will increase state tax revenue beginning in fiscal year 2013-14. The amendment is estimated to increase tax revenue from individual income taxes by \$452 million in fiscal year 2013-14 (a one-half year impact); \$950.1 million in fiscal year 2014-15 (the first full year of increased tax collections); and \$1.0 billion in fiscal year 2015-16.

State spending - Education. Amendment 66 may increase state expenditures for public schools by up to \$452 million in fiscal year 2013-14, \$950.1 million in fiscal year 2014-15, and \$1.0 billion in fiscal year 2015-16.

The new revenue collected under Amendment 66 must be used for funding P-12 public education. The amendment also triggers implementation of Senate Bill 13-213, enacted during the 2013 legislative session and signed by the Governor. Beginning with fiscal year 2015-16, the allocation formula in SB 13-213 replaces the allocation formula contained in the SFA of 1994. For a detailed description of state and school district expenditures under SB 13-213, please refer to the final fiscal note for that legislation.

Prior to fiscal year 2015-16, all revenue collected under Amendment 66 is deposited as follows:

- up to 15 percent to the Educator Effectiveness Reserve Fund;
- up to 40 percent to the Preschool through 12th Grade Education Reserve Fund;
- up to 40 percent to the Public School Capital Construction Assistance Fund; and
- up to 5 percent to the Education Technology Fund.

Total spending from these funds in fiscal years 2013-14 and 2014-15 is indeterminate; appropriations from these funds are made at the discretion of the General Assembly during the annual budget setting process.

State spending - Department of Revenue. Amendment 66 will also increase General Fund expenditures in the Department of Revenue (DOR) by \$201,986 and 3.6 staff positions in fiscal year 2014-15; and \$71,339 and 1.5 staff positions in fiscal year 2015-16.

New state spending in the DOR is anticipated for the Tax Call Center and the Public Information and Education Office in the DOR. The DOR is responsible for processing approximately 2.4 million individual income tax returns, and Amendment 66 will potentially impact each of these returns. The DOR can anticipate an increased workload to educate the public and respond to questions regarding the two-tiered tax rate change, especially in the first full tax year of implementation. The DOR can then anticipate a reduced volume of outreach and call center activity following the first year.

In addition to outreach and education, the DOR can anticipate increased workload to address filing errors in individual tax returns. Based on historical data with other tax policy changes, three percent of individual tax returns will be filed incorrectly and require additional processing and review during the first year. The error rate is then expected to fall to one-half this amount in the second year.

Finally, the DOR will have increased expenditures to program and update the GenTax system. The system will require 60 hours of one-time programming at a cost of \$200.00 per hour for a total of \$12,000. Total new expenditures for the DOR are displayed in Table 1.

Table 1. Total DOR Expenditures Under Amendment 66		
Cost Components	FY 2013-14	FY 2014-15
Personal Service Costs	\$170,200	\$69,914
Full Time Staff Positions	3.6	1.5
Operating Expenses and Capital Outlay	19,786	1,425
Computer System Modifications	12,000	-
TOTAL	\$201,986	\$71,339

School District Impact

Amendment 66 increases tax revenues for public school districts and charter schools and triggers implementation of SB13-213. Due to provisions contained in SB13-213, and beginning with the 2015-16 academic year, the funded pupil count, the total amount of school district funding, and the amount of per pupil funding will change; however, the actual amount is dependant on a number of variables including a district's percentage of at-risk students and English language learners, and the potential for voter approved mill levy increases in local school districts. For details on how the new revenue will be allocated to public school districts and charter schools under the new formula, please refer to the final fiscal note for Senate Bill 13-213, available on the General Assembly's web site. A district by district comparison is also available at:

www.colorado.gov/cs/Satellite/CGA-LegislativeCouncil/CLC/1251600282747