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Initiative #126
TABOR Rebates and Education Funding

3 **Amendment ?? proposes amending the Colorado Constitution to:**

- 4 ♦ eliminate rebates that taxpayers receive when the state collects
5 more money than it is allowed, and spend the money on preschool
6 through 12th grade (P-12) public education;
- 7 ♦ eliminate required spending increases for P-12 education; and
- 8 ♦ set aside money in a new savings account for P-12 education.

9 **Summary and Analysis**

10 ***What is the state spending limit and how is it changed?*** A constitutional
11 provision known as TABOR limits the amount of money the state may spend each year.
12 Any money collected above the limit must be rebated to taxpayers unless voters allow
13 the state to spend it. Current projections do not show any rebates during the next five
14 years. Since the economy grows faster than the limit over time, tax collections will
15 grow beyond the limit and rebates will occur at some point in the future. Beginning in
16 2011, Amendment ?? permanently eliminates these rebates and instead places that
17 money in the State Education Fund.

18 ***What are the required increases for education spending and how are they***
19 ***changed?*** Another constitutional provision known as Amendment 23 requires the
20 state to increase the amount of money it spends on P-12 education. Spending per
21 student must increase by at least inflation each year after 2011. Amendment ??
22 eliminates this requirement.

23 ***What is the State Education Fund?*** The State Education Fund is an existing
24 state fund that receives and holds money that can be spent only on P-12 education.
25 Under current law, a portion of state income taxes are deposited in the fund.
26 Amendment ?? deposits the money that the state keeps above the TABOR spending
27 limit into the fund, along with other money the legislature may transfer to the fund.

28 ***What is the new savings account for P-12 education?*** Amendment ??
29 creates a savings account within the State Education Fund. It places ten percent of
30 income taxes that are currently deposited in the fund into the savings account until a
31 certain threshold is reached. This money, about \$46 million in the first year, may be
32 spent only if two-thirds of the state legislature votes to do so. In years that statewide
33 personal income grows less than 6 percent, the state legislature may spend it with a
34 simple majority vote. In either case, this money may be spent only on P-12 education.

1 **What else does the amendment do?** In addition to the TABOR spending limit
2 mentioned above, the state has a yearly limit on spending increases for most state
3 programs. Any money the state has above this limit is currently spent on transportation
4 and to build and maintain the state's buildings. Amendment ?? allows the legislature to
5 transfer this money to the State Education Fund as long as certain other transfers for
6 transportation have been made.

7 **Arguments For**

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9 1) Without raising taxes, Amendment ?? provides a future source of money for
10 educating Colorado's children. This money may be used to increase per-student
11 funding and for P-12 education improvements, including expanding preschool and
12 full-day kindergarten programs, reducing class size, expanding technology education,
13 and providing performance pay for teachers. Providing new sources of money to invest
14 in P-12 education helps schools teach children the skills needed for the jobs of the
15 future. A well-educated workforce is necessary to attract new businesses, generate
16 new jobs, and keep existing jobs in Colorado.

17 2) A savings account for education protects both P-12 schools and other state
18 programs during economic downturns. Currently, Amendment 23 requires an increase
19 in school funding every year, regardless of the economic situation. In difficult times,
20 this required increase may result in cuts to other state programs such as health care,
21 transportation, and higher education in order to fund P-12 education. Amendment ??
22 relieves pressure to cut other programs while protecting funding for
23 P-12 education during an economic downturn.

24 3) TABOR's spending limit conflicts with Amendment 23's required spending
25 increases. Amendment ?? solves this conflict while protecting funding for education
26 and retaining the right of Coloradans to vote on tax increases.

27 **Arguments Against**

28 1) Amendment ?? permanently eliminates all future TABOR rebates to
29 Colorado taxpayers. It is effectively a tax increase that will grow the size of state
30 government. In addition, while the TABOR rebates are supposed to be spent on
31 education, the money could instead replace existing education spending, allowing
32 growth in other state programs. Amendment ?? also allows the only major source of
33 money that is spent on the state's buildings to be transferred for spending on P-12
34 education at a time when the state is currently unable to keep up with building
35 maintenance and construction needs.

36 2) Amendment ?? eliminates guaranteed funding increases for education and
37 places future funding for education at the discretion of the state legislature. Without
38 these guaranteed increases, legislators could provide less than inflationary increases
39 for P-12 education in order to pay for other programs.

1 3) Without a limit on spending, government is more likely to increase fees.
2 TABOR requires that money collected above the spending limit be returned to
3 taxpayers. In this situation, government has no incentive to raise fees because the
4 additional money is rebated to taxpayers. Amendment ?? eliminates this disincentive
5 and thus is likely to result in an increase in the amount of fees charged to people.

6 **Estimate of Fiscal Impact**

7 Beginning in 2010, ten percent of the income tax collections deposited into the
8 State Education Fund will be placed in a savings account. The savings account will
9 receive an estimated \$46 million in 2010 and \$50 million in 2011. Money will be
10 placed in the savings account each year until the account balance reaches a certain
11 threshold amount. The savings account is expected to reach the threshold in 2030.
12 Under current projections, no new money will be deposited in the State Education
13 Fund from TABOR rebates during the next five years. The state is expected to
14 deposit new money from TABOR rebates at some point in the future.

15 Amendment ?? allows transfers of money to the State Education Fund above
16 the state's yearly limit on spending for most state programs as long as certain other
17 transfers for transportation have been made. Money is expected to be available for
18 these transfers beginning in 2010. Any transfers will result in a dollar-for-dollar
19 decrease in spending on transportation and capital construction projects.