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Amendment 59 Education Funding and TABOR Rebates

Amendment 59 proposes amending the Colorado Constitution to:

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

Summary and Analysis

What is the state spending limit and how is it changed? A constitutional provision known as TABOR limits the amount of money the state may spend each year. Any money collected above the limit must be rebated to taxpayers unless voters allow the state to spend it. Current projections do not show any rebates during the next five years. Since the economy grows faster than the limit over time, tax collections will grow beyond the limit and rebates will occur at some point in the future. Beginning in 2011, Amendment 59 permanently eliminates these rebates and instead places that money in the State Education Fund.

What are the required increases for education spending and how are they changed? Another constitutional provision known as Amendment 23 requires the state to increase the amount of money it spends on P-12 education. Spending per student must increase by at least inflation each year after 2011. Amendment 59 eliminates this requirement.

What is the State Education Fund? The State Education Fund is an existing state fund that receives and holds money that can be spent only on P-12 education. Under current law, a portion of state income taxes is deposited in the fund. Amendment 59 deposits the money that the state keeps above the TABOR spending limit into the fund, along with other money the legislature may transfer to the fund.

What is the new savings account for P-12 education? Amendment 59 creates a savings account within the State Education Fund. It places ten percent of income tax revenue that is currently deposited in the fund into the savings account until a certain threshold is reached. This money, about \$46 million in the first year, may be spent only if two-thirds of the state legislature votes to do so. In years that statewide personal income grows less than 6percent, the state legislature may spend it with a simple majority vote. In either case, this money may be spent only on P-12 education.

What else does the amendment do? In addition to the TABOR spending limit mentioned above, the state has a yearly limit on spending increases for most state

1 programs. Any money the state has above this limit is currently spent on transportation
2 and to build and maintain the state's buildings. Amendment 59 allows the legislature to
3 transfer this money to the State Education Fund as long as certain other transfers for
4 transportation have been made.

5 **Arguments For**

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7 1) Without raising taxes, Amendment 59 provides a future source of money for
8 educating Colorado's children. This money may be used to increase per-student
9 funding and for P-12 education improvements, including expanding preschool and
10 full-day kindergarten programs, reducing class size, expanding technology education,
11 and providing performance pay for teachers. Providing new sources of money to invest
12 in P-12 education helps schools teach children the skills needed for the jobs of the
13 future. A well-educated workforce is necessary to attract new businesses, generate
14 new jobs, and keep existing jobs in Colorado.

15 2) A savings account for education protects both P-12 schools and other state
16 programs during economic downturns. Currently, Amendment 23 requires an increase
17 in school funding every year, regardless of the economic situation. In difficult times,
18 this required increase may result in cuts to other state programs such as health care,
19 transportation, and higher education in order to fund P-12 education. Amendment 59
20 relieves pressure to cut other programs while protecting funding for P-12 education
21 during an economic downturn.

22 3) TABOR limits spending growth while Amendment 23 requires spending
23 increases on education. Amendment 59 eliminates this tension while protecting
24 funding for education and retaining the right of Coloradans to vote on tax increases.

25 **Arguments Against**

26 1) Amendment 59 permanently eliminates all future TABOR rebates to
27 Colorado taxpayers. It is effectively a tax increase that will grow the size of state
28 government. In addition, while the TABOR rebates are supposed to be spent on
29 education, the money could instead replace existing education spending, allowing
30 growth in other state programs. Amendment 59 also allows the only major source of
31 money that is spent on the state's buildings to be transferred for spending on
32 P-12 education at a time when the state is currently unable to keep up with building
33 maintenance and construction needs.

34 2) Amendment 59 eliminates guaranteed funding increases for education and
35 places future funding for education at the discretion of the state legislature. Without
36 these guaranteed increases, legislators could provide less than inflationary increases
37 for P-12 education in order to pay for other programs.

38 3) Without a limit on spending, government is more likely to increase fees.
39 TABOR requires that money collected above the spending limit be returned to
40 taxpayers. When the state is providing rebates, government has little incentive to

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1 raise fees because the additional money is rebated to taxpayers. Amendment 59
2 weakens this disincentive and thus is likely to result in an increase in the amount of
3 fees charged to people.

4 **Estimate of Fiscal Impact**

5 Beginning in 2010, ten percent of the income tax collections deposited into the
6 State Education Fund will be placed in a savings account. The savings account will
7 receive an estimated \$46 million in 2010 and \$50 million in 2011. Money will be
8 placed in the savings account each year until the account balance reaches a certain
9 threshold amount. The savings account is expected to reach the threshold in 2023.
10 Under current projections, no new money will be deposited in the State Education
11 Fund from TABOR rebates during the next five years. The state is expected to
12 deposit new money from TABOR rebates at some point in the future.

13 Amendment 59 allows transfers of money to the State Education Fund above
14 the state's yearly limit on spending for most state programs as long as certain other
15 transfers for transportation have been made. Money is expected to be available for
16 these transfers beginning in 2010. Any transfers will result in a dollar-for-dollar
17 decrease in spending on transportation and capital construction projects.