The Property Tax and the Funding of K-12 Public Education in Colorado

Presentation to the Joint Budget Committee and the Senate and House Education Committees of the Colorado Legislature

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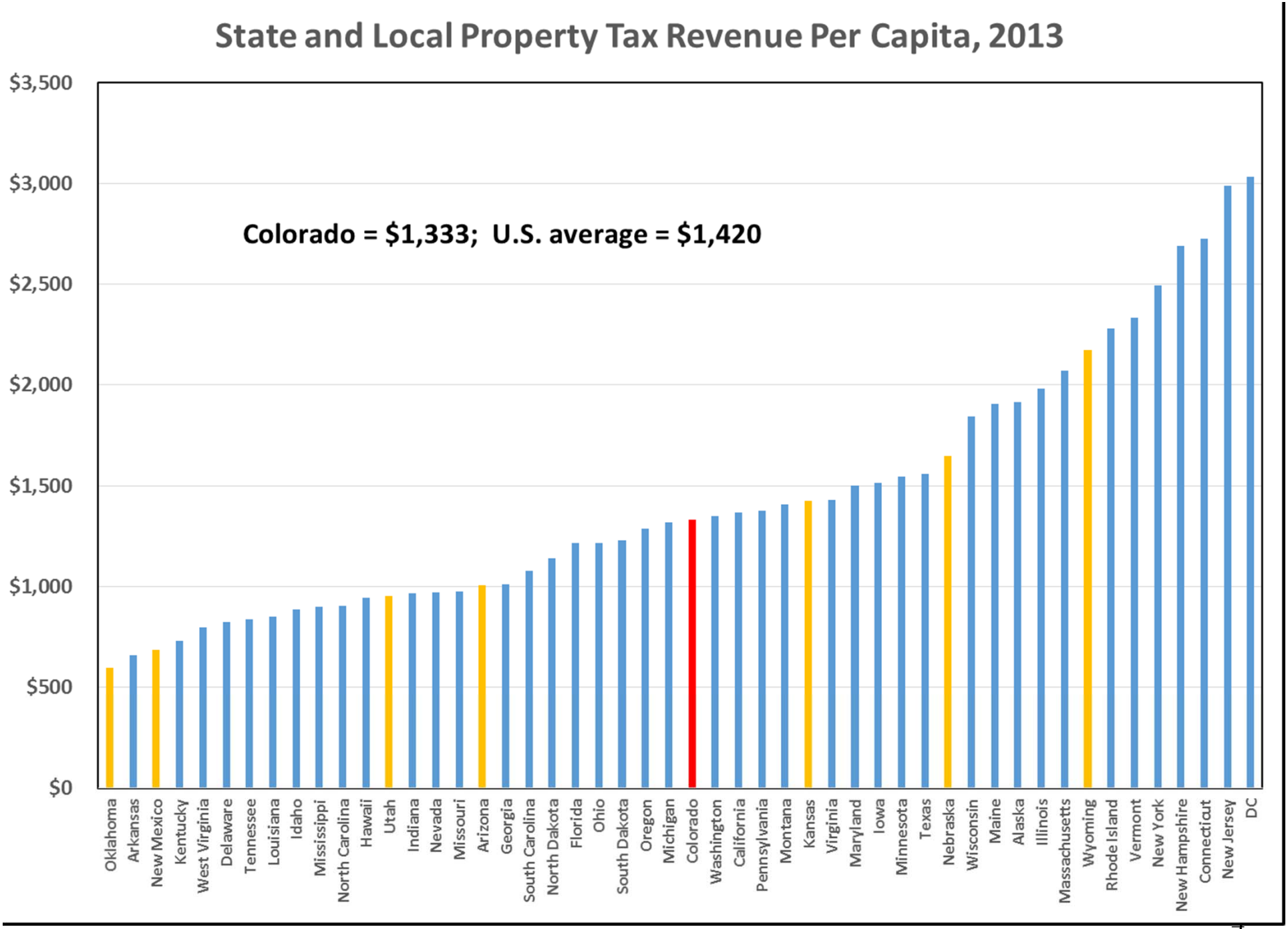
Presentation Outline

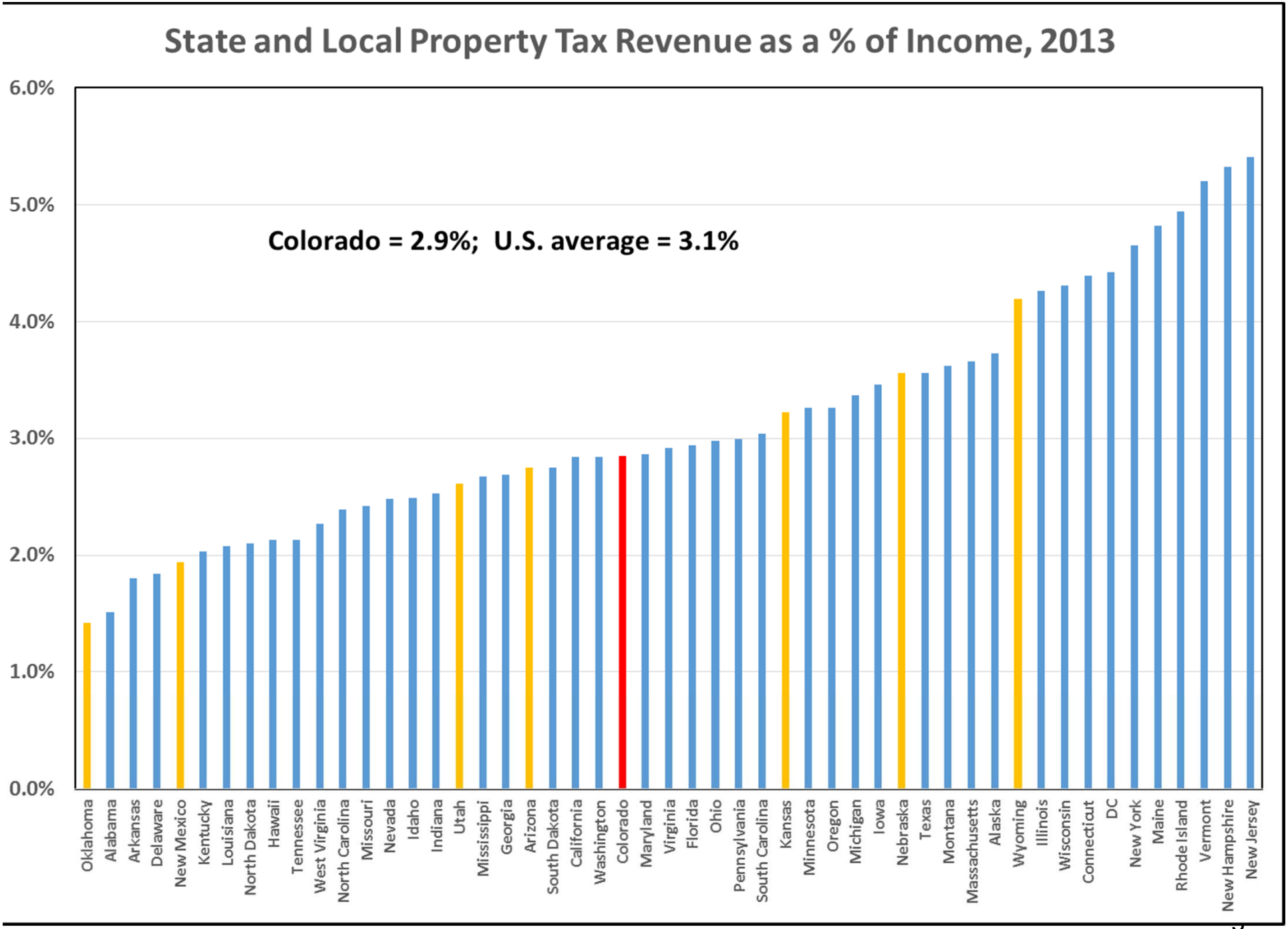
- Colorado property tax compared with the rest of the country
- The role of the property tax in funding K-12 education
- The goals of Colorado's school funding system—providing quality education and ensuring equity
- How Colorado's school aid formula works
- The role of the "negative factor"
- Do mill levy overrides support or distort the school funding system?

Property Taxation in Colorado

How Does Colorado Compare to Other States?

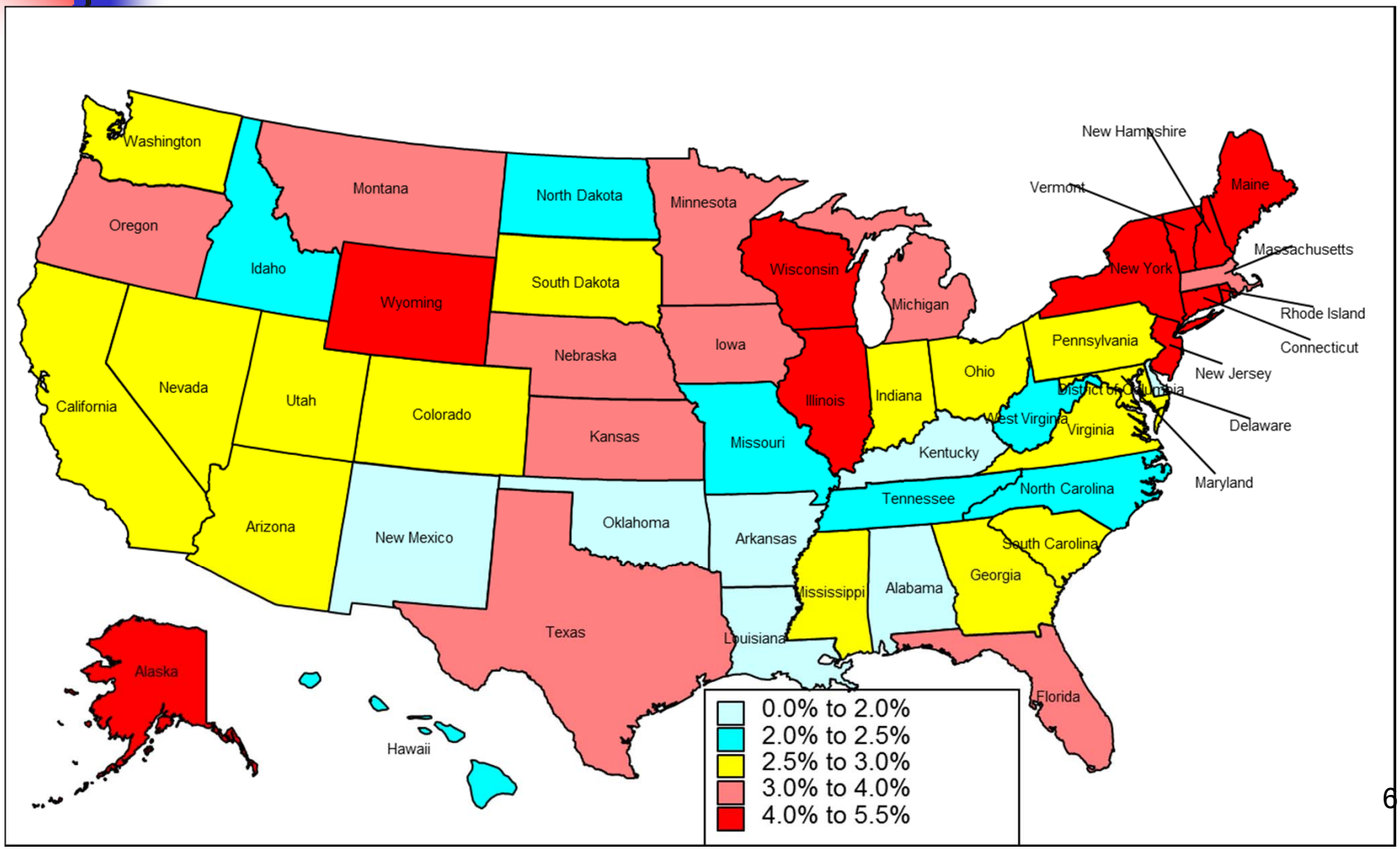


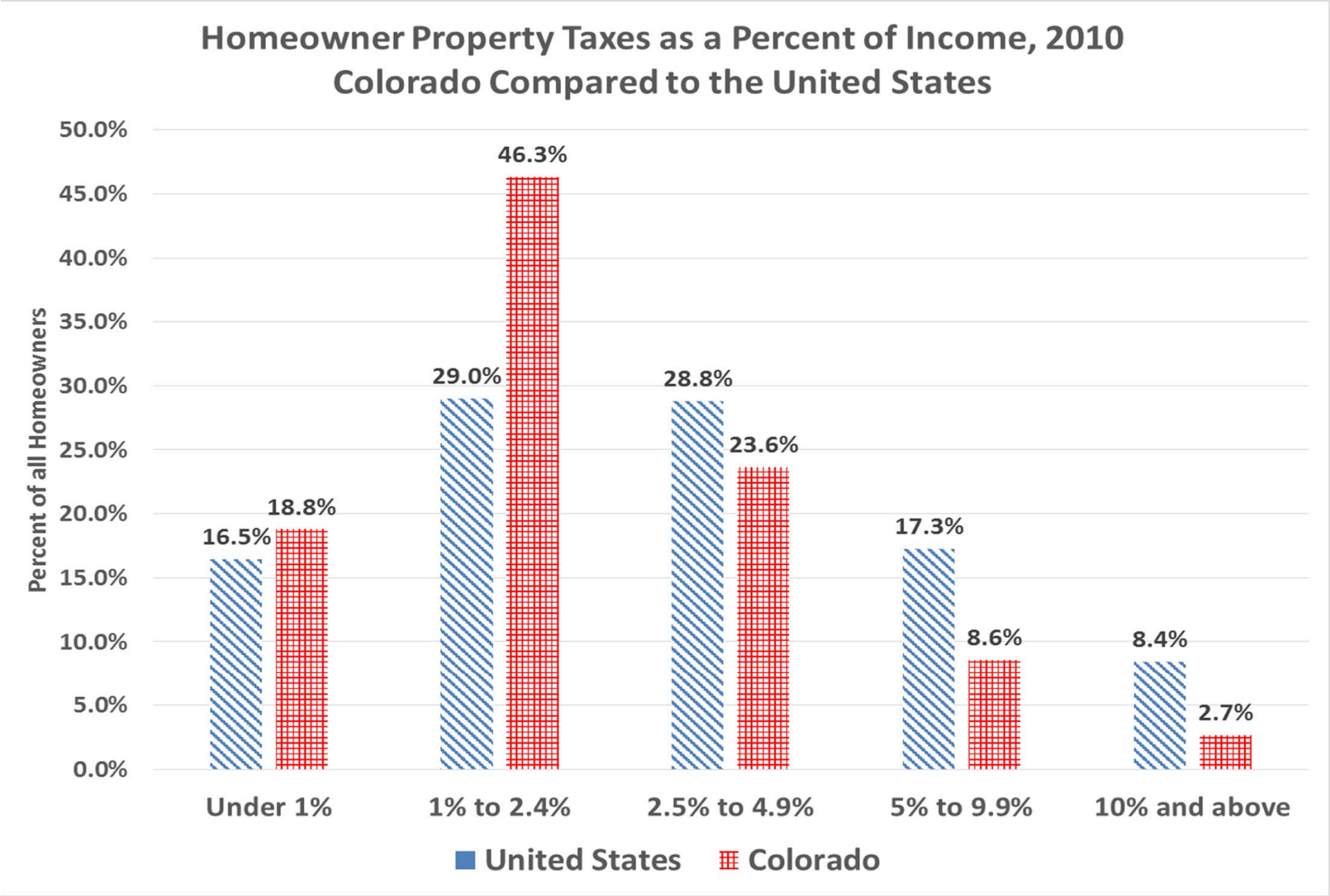
Source: U.S. Census Bureau, *State and Local Government Finances,* Fiscal Year 2013



Source: U.S. Census Bureau, *State and Local Government Finances*, Fiscal Year 2013

Property Tax Revenue as a % of Personal Income, 2012





Average property tax burden: U.S. = 4.3% Colorado = 2.7%

Source: U.S. Census Bureau, *American Community Survey, 2008-2012*

Source: U.S. Census Bureau, *American Community Survey, 2010-2014*

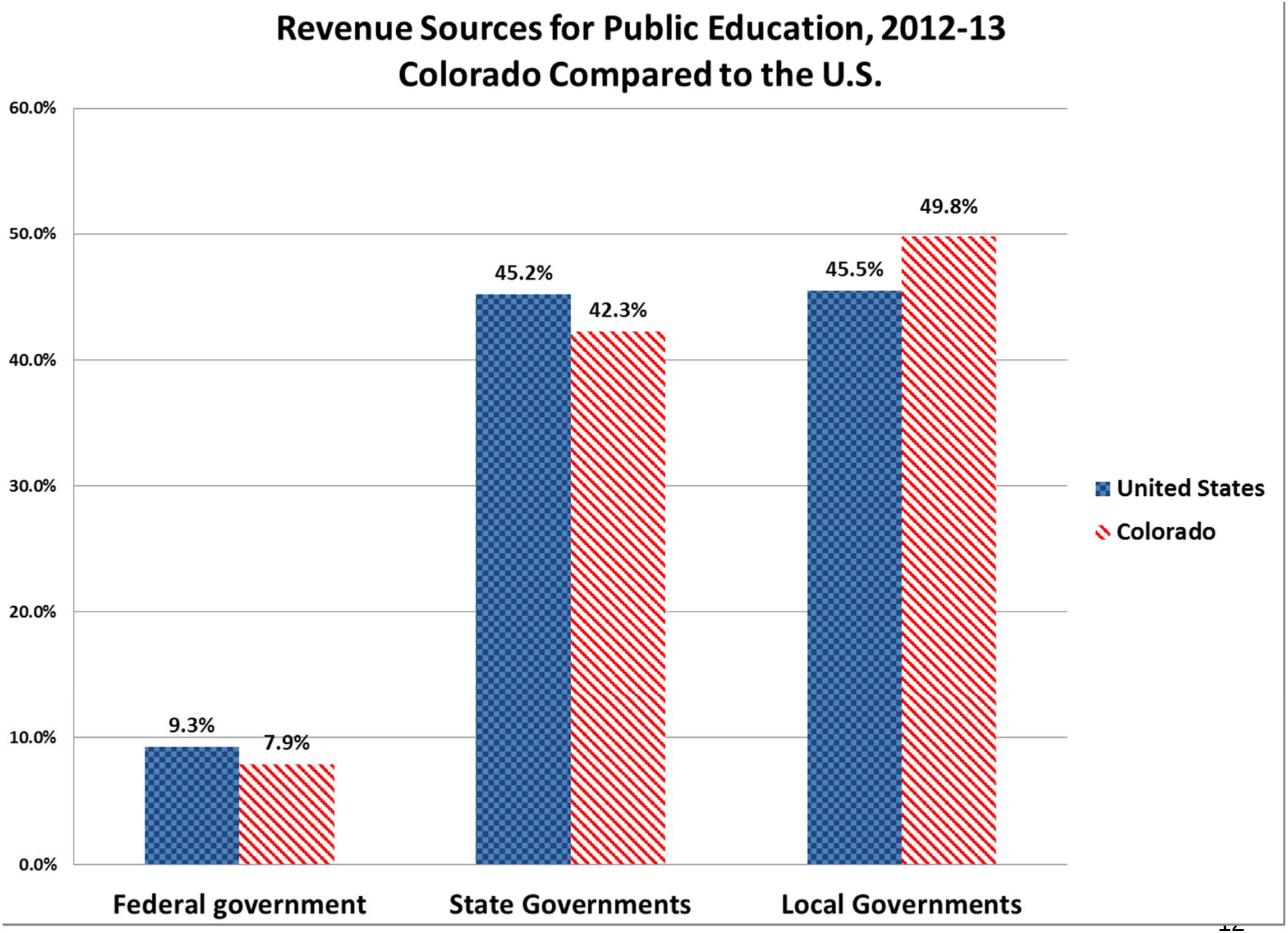
Why Are Homeowner Property Tax Burdens Relatively Low in Colorado?

- Gallagher Amendment
  - As residential property values grow relative to non-residential values, the residential share of *assessed values* is forced down
  - **1984**
    - Residential share of market value = 54.1%
    - Residential share of assessed value = 44.1%
  - **2014**
    - Residential share of market value = 75.5%
    - Residential share of assessed value = 42.6%
  - Currently, residential property taxed at 7.96% of market value

Why Are Homeowner Property Tax Burdens Relatively Low in Colorado?

- TABOR
  - Assessment ratios (assessed value/market value) can only be increased with statewide voter approval
  - Property tax rate (mill levy) increases require voter approval
  - Property tax revenue growth limited to rate of inflation and enrollment growth
  - School spending growth limited to rate of inflation and enrollment growth

The Role of the Property Tax in Funding Public Education in Colorado

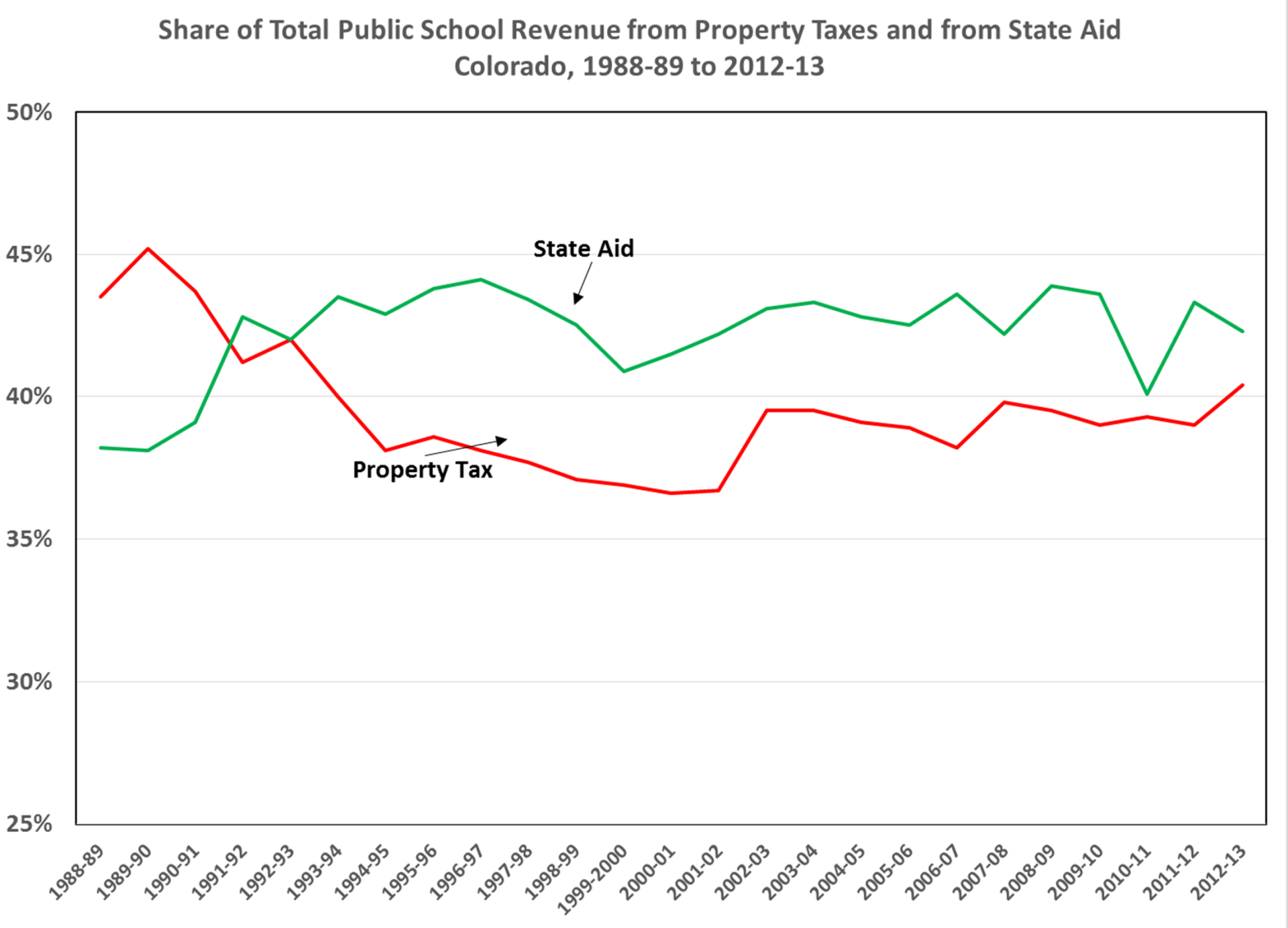


Source: National Center for Education Statistics, *National Public Education Financial Survey, Fiscal Year 2013*.

The Role of the Property Tax in Funding Public Education, 2012-13

	Property Tax as a % of Local Revenue		Local Revenue as a % of Total Revenue		Local Property Tax as a % of Total Total Revenue	
Illinois	88.0%		65.3%		57.5%	
New Hampshire	95.6%		58.8%		56.2%	
Connecticut	97.2%		56.2%		54.6%	
Nebraska	88.5%		58.5%		51.8%	
New Jersey	94.3%		54.8%		51.7%	
Colorado	81.1%	(24)	49.8%	(16)	40.4%	(16)
Average state	76.4%		43.7%		33.3%	
Minnesota	64.3%		29.2%		18.8%	
Louisiana	43.1%		41.6%		17.9%	
Alabama	45.8%		33.4%		15.3%	
New Mexico	80.9%		16.2%		13.1%	
Alaska	57.9%		19.3%		11.2%	

Source: Calculations using data from the National Center for Education Statistics, *National Public Education Financial Survey* Data, 2012-13. Available at nces.ed.gov/ccd/stfis.asp.



Source: National Center for Education Statistics, *National Public Education Financial Survey,* various years.

Current Spending Per Pupil, Fiscal Year 2013

Public Elementary and Secondary Education

New York	$19,818
Alaska	$18,175
District of Columbia	$17,953
Median state	$10,490
Alabama	$8,755
Colorado	$8,647
South Dakota	$8,470
Arizona	$7,208
Idaho	$6,791
Utah	$6,555

Source: U.S. Census Bureau, *Public Elementary-Secondary Education Finances: Fiscal Year 2013.*

Student Performance in Colorado

- Student performance on National Assessment of Education Progress (NAEP) at or above national averages
- Percentage of students preforming at or above "basic"

8th grade math	73%
8th grade reading	78%

- No significant improvement in NAEP scores over past 10 to 15 years

Goals of Colorado's School Finance System

Providing Quality Education

- Assuring that each school district has sufficient funds to provide their pupils with a *quality* education
  - Defining what constitutes a quality education is the responsibility of the state Legislature

Providing Quality Education

- Determining the funding school districts need to provide their students with a quality education requires identifying various school district characteristics that influence the *costs* of education
  - Economists define ***costs*** as the minimum amount of money each district needs to provide a quality education
  - Costs are not the same as spending, if measured correctly they are determined by factors outside the control of local school districts
- If school districts receive sufficient funding to provide quality education, they can be held accountable for poor performance

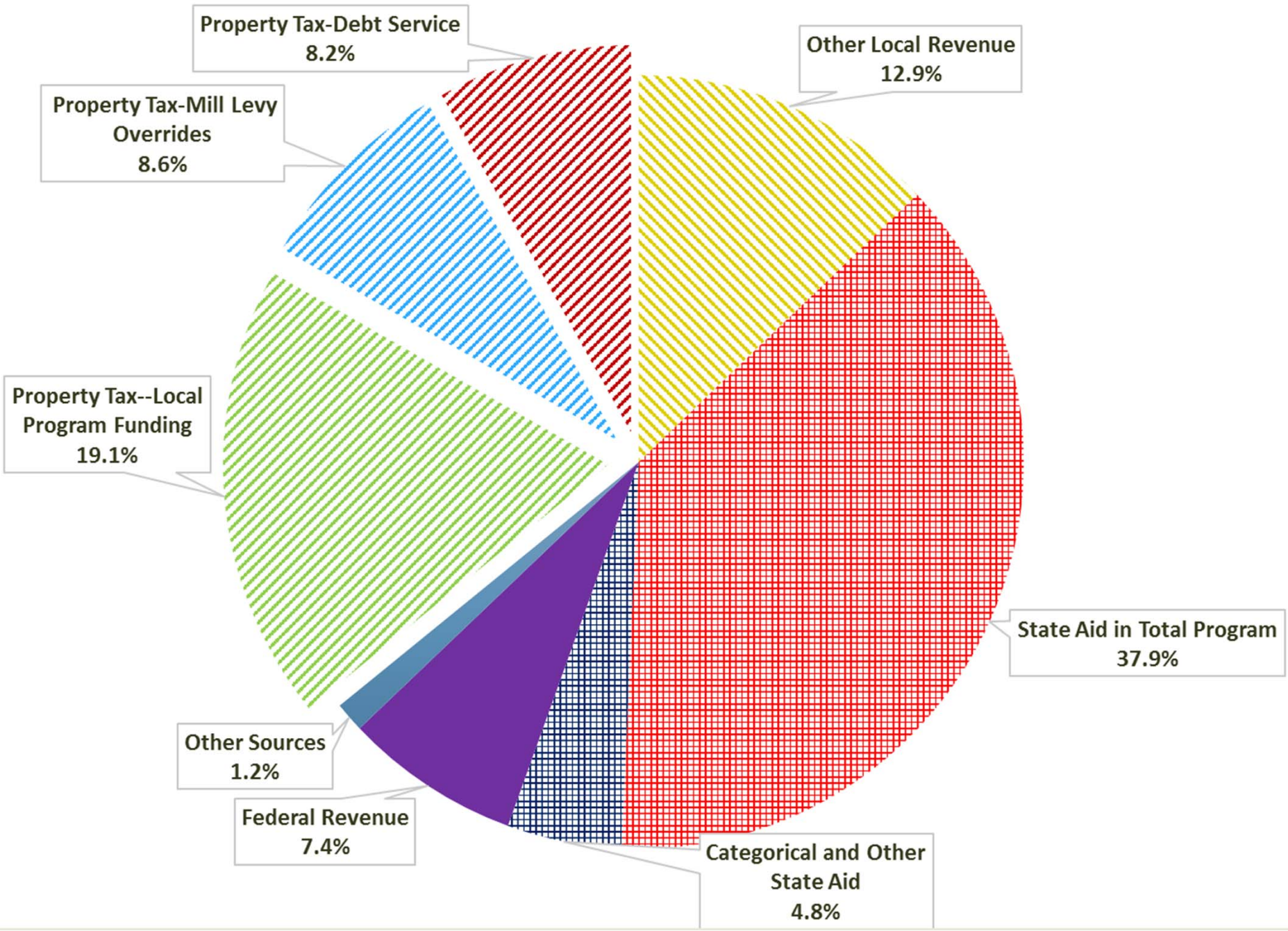
Cost factors

- Percent of pupils from poor families – “at risk”
- Percent of pupils with limited English proficiency
- Percent of pupils with “special education” needs
- Diseconomies of scale
- Area cost of living

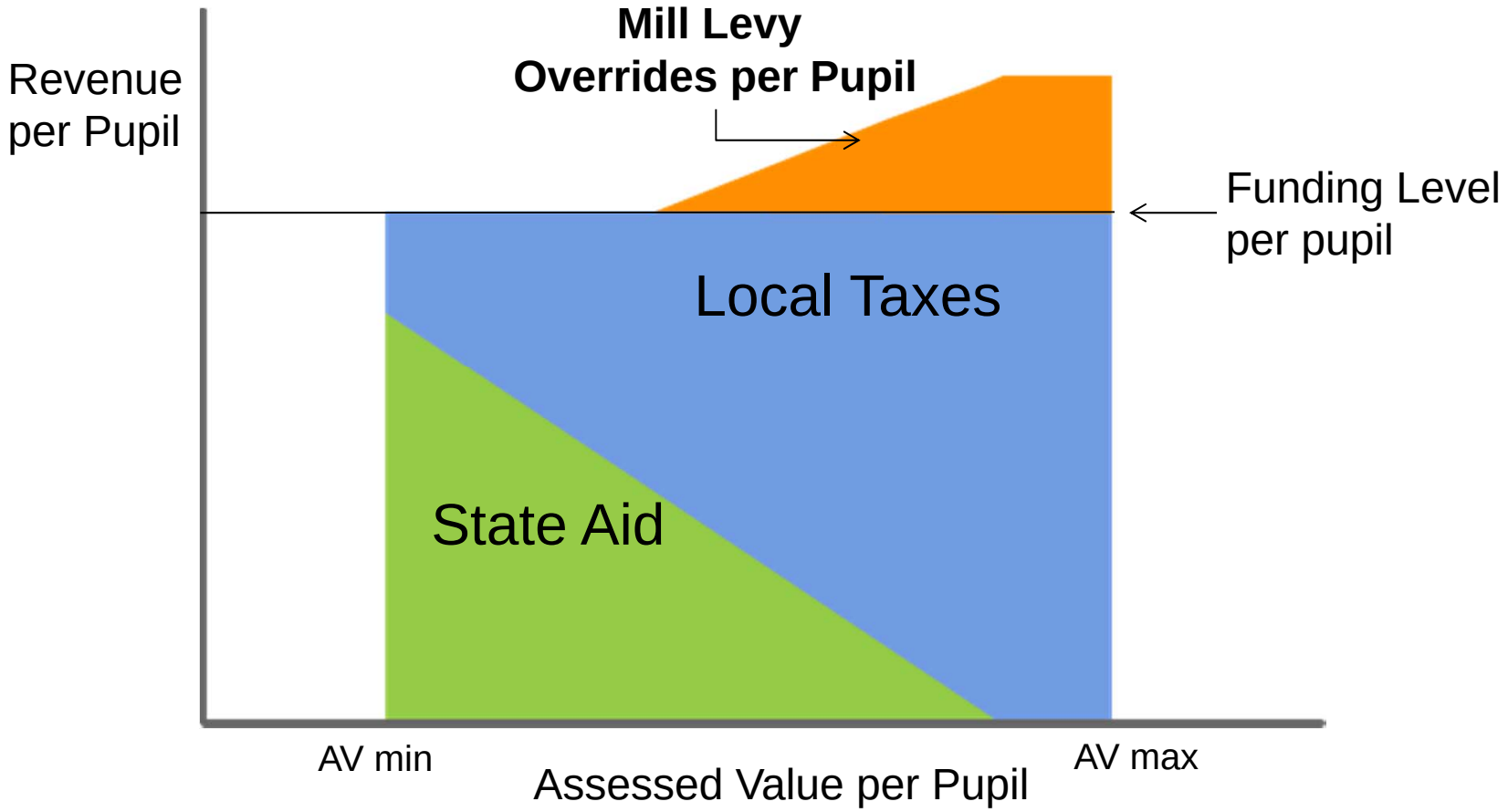
Equalization

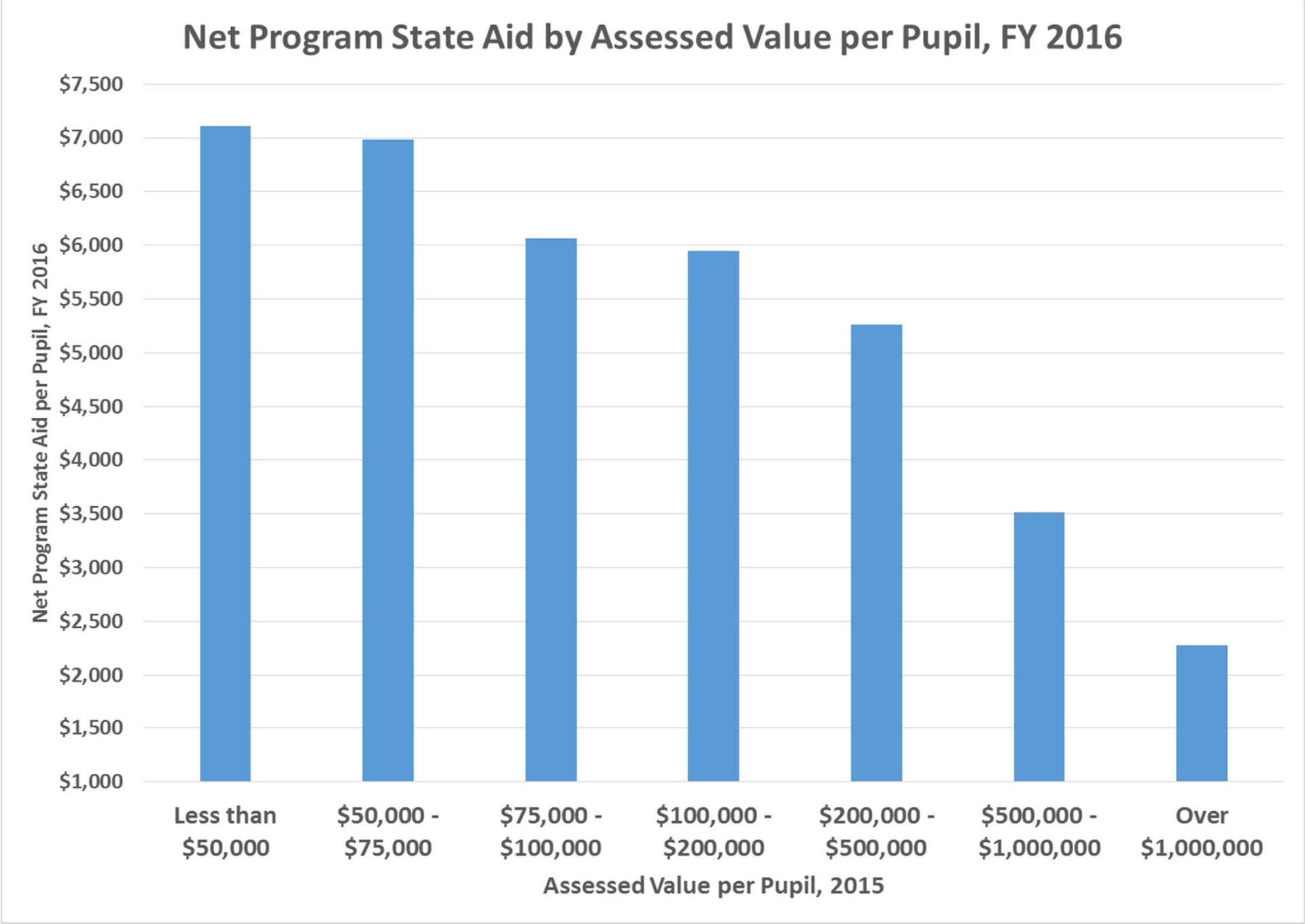
- Multiple definitions
  - Equal spending per pupil, after adjusting for *cost* differences
  - *Taxpayer equity* – two districts with identical mill levies (rates) should be able to raise the same amount of money per pupil regardless of district per pupil assessed value

Colorado School District Revenue by Source, FY 2014

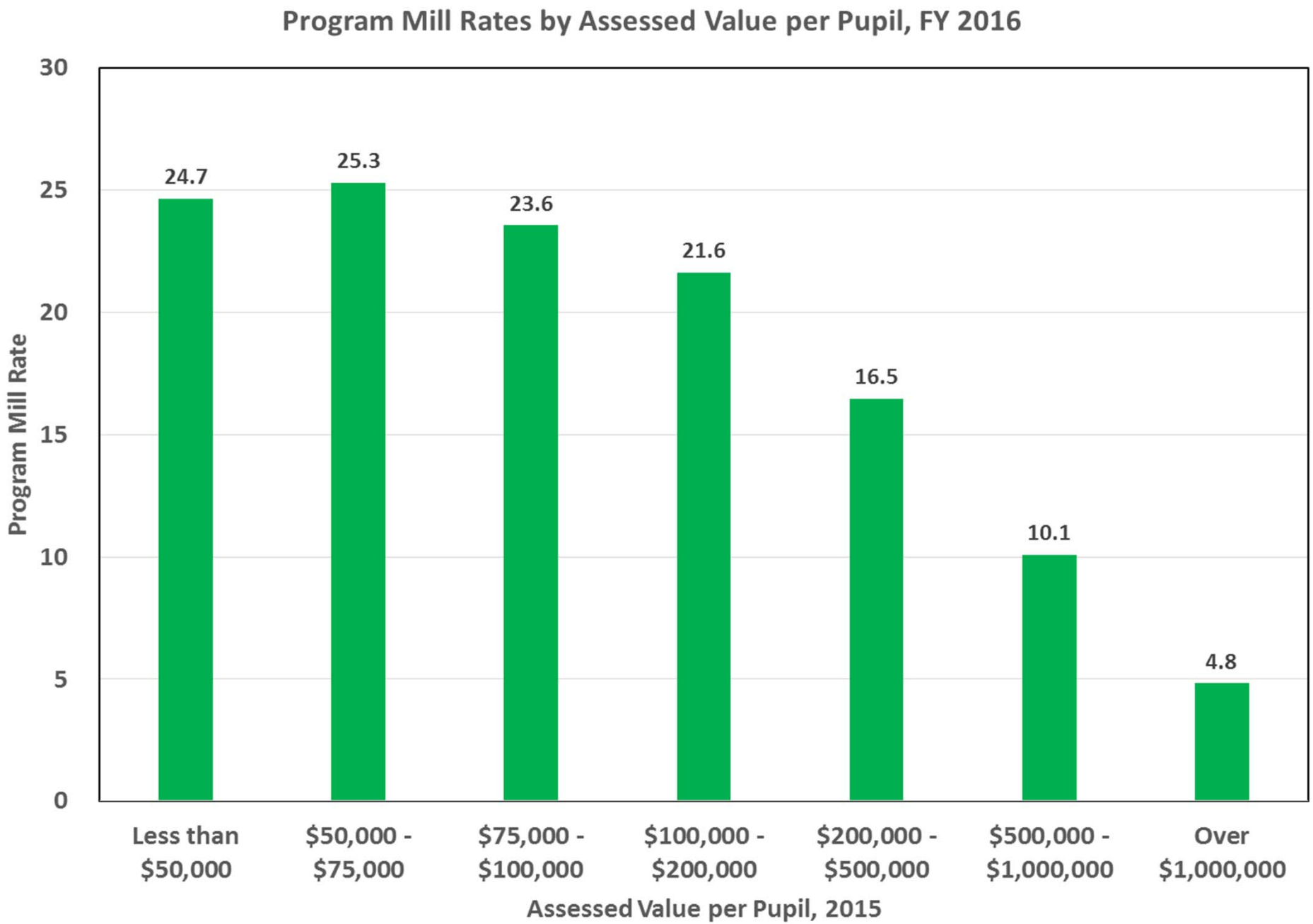


Colorado's School Aid Formula





No. of districts	**20**	**22**	**36**	**35**	**40**	**16**	**9**

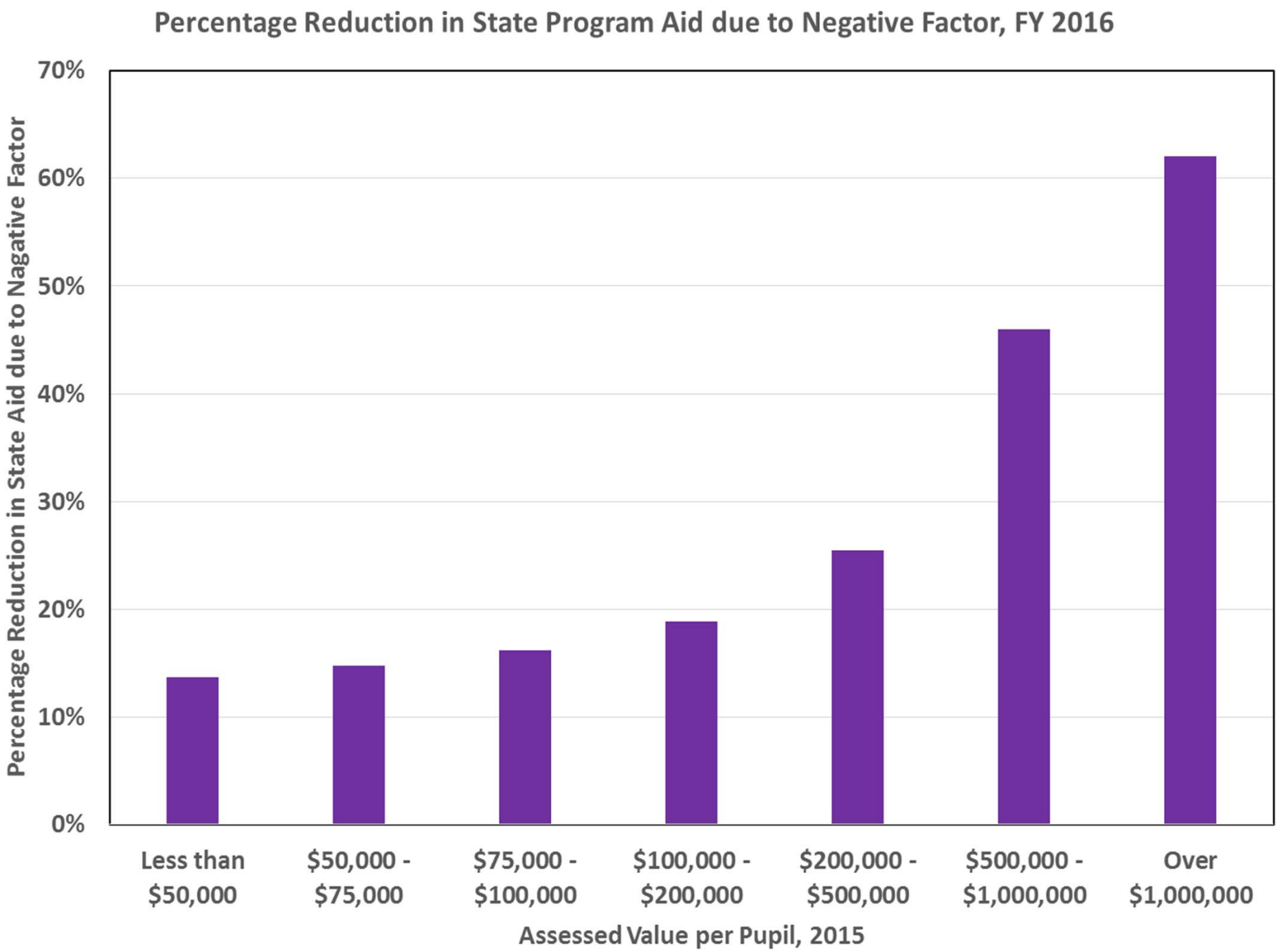


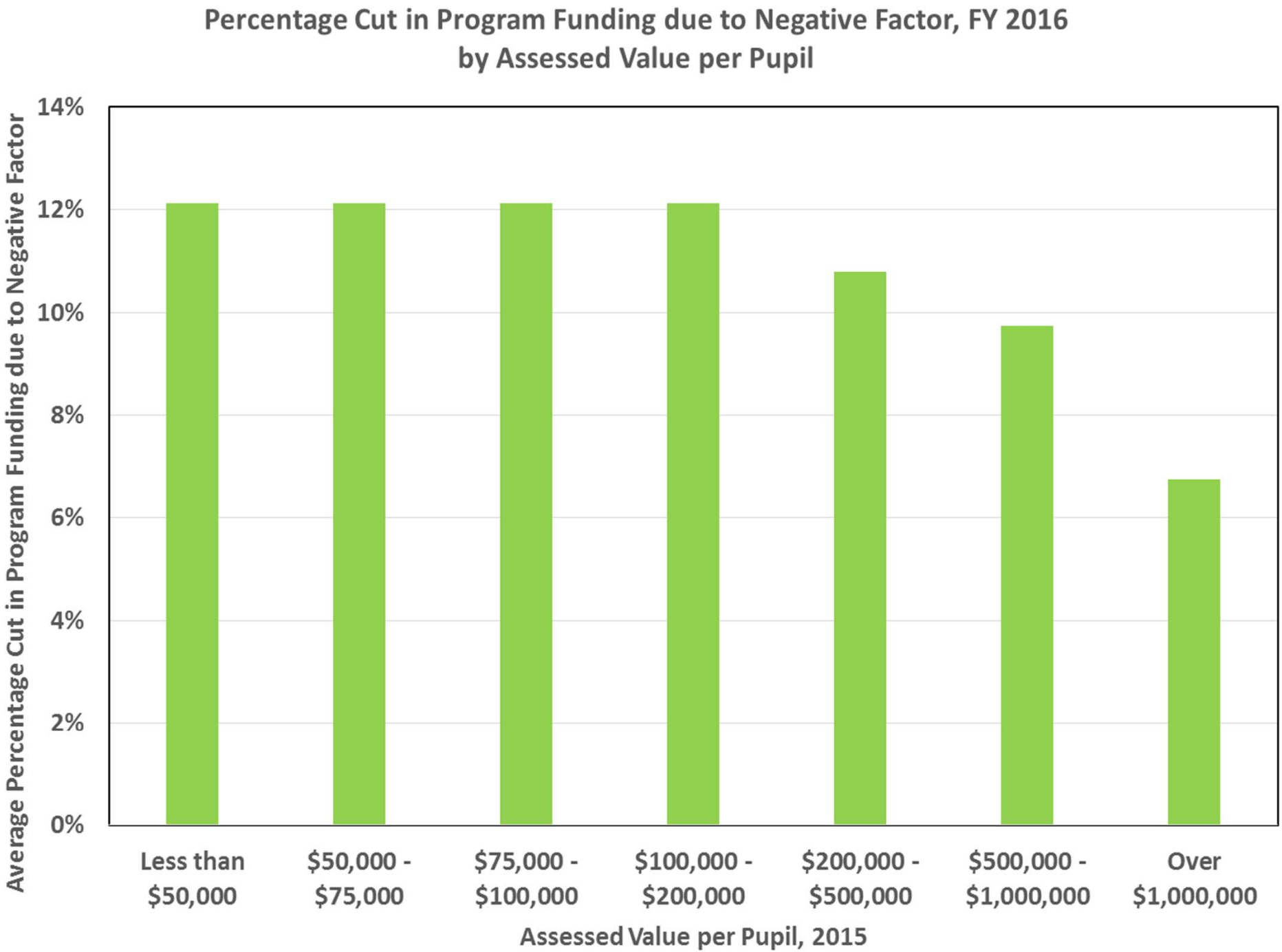
Percent of pupils	**15.3%**	**15.4%**	**45.3%**	**17.1%**	**4.8%**	**1.5%**	**0.6%**

The Impact of the “Negative Factor”

The “Negative Factor”

- Reduced state share of program funding by $855 million in FY 2016
- Cuts total program funding by **lesser of**
  - 12.1% of school district’s program funding
  - The state share of program funding (program state aid)
- Districts with no state program funding (no aid), unaffected by the negative factor

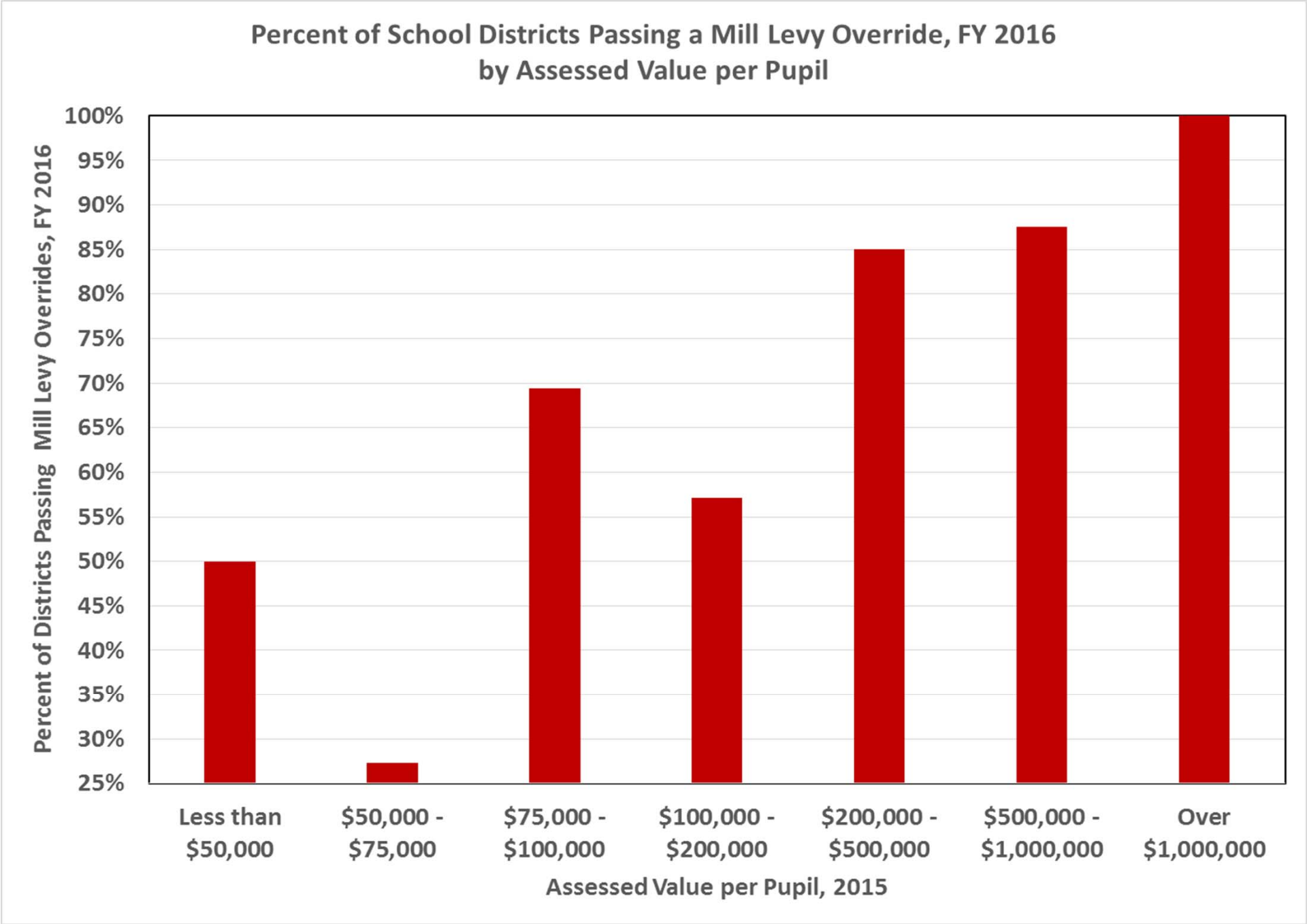

Percentage Reduction in State Program Aid due to Negative Factor, FY 2016
Percentage Reduction in State Aid due to Nagative Factor
70%
60%
50%
40%
30%
20%
10%
0%
Less than $50,000
$50,000 - $75,000
$75,000 - $100,000
$100,000 - $200,000
$200,000 - $500,000
$500,000 - $1,000,000
Over $1,000,000
Assessed Value per Pupil, 2015


Percentage Cut in Program Funding due to Negative Factor, FY 2016
by Assessed Value per Pupil
Average Percentage Cut in Program Funding due to Negative Factor
14%
12%
10%
8%
6%
4%
2%
0%
Less than $50,000
$50,000 - $75,000
$75,000 - $100,000
$100,000 - $200,000
$200,000 - $500,000
$500,000 - $1,000,000
Over $1,000,000
Assessed Value per Pupil, 2015

Do Mill Levy Overrides Support or Distort Colorado's School Finance System?

Voter-Approved Overrides in FY 2016

- 118 out of 178 school districts approved overrides
- Overrides totaled $860.1 million
  - 13.7% of approving districts program formula funding
  - 43.5% of total program funded property tax revenue



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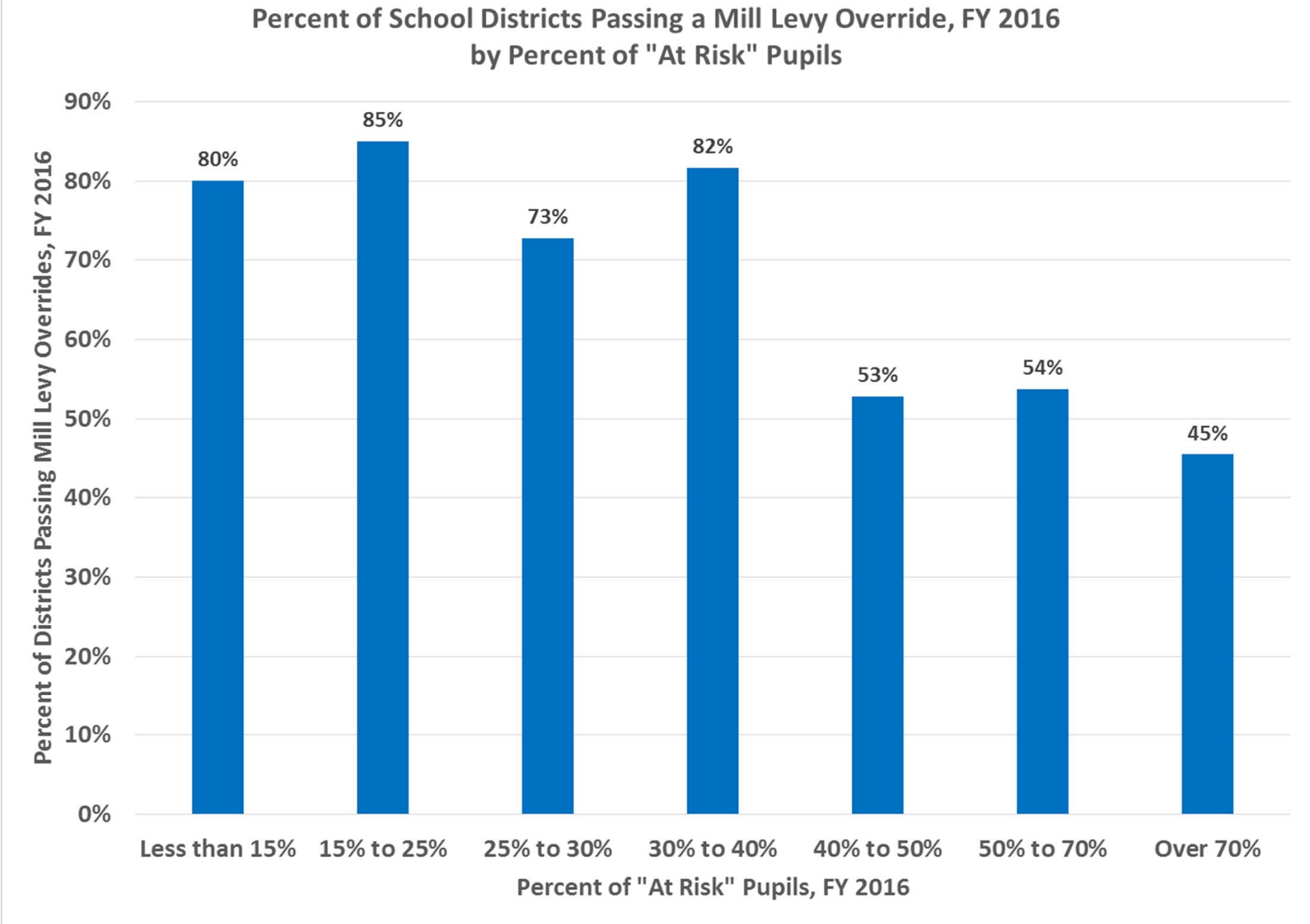

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The Benefits of Mill Levy Overrides

- Essential for local control – allows local citizens to decide how much to spend on education
- Allows school districts to finance improved education
- If overrides prohibited, those who are able will enroll children in private schools
- Inequities may be more acceptable if all Colorado pupils are provided with a *quality* education

Limiting Mill Levy Overrides

- Current law limits overrides to 25% or 30% of total program funding
- Some states, e.g. Wisconsin, provides more aid for each dollar of local spending above *foundation level* for low assessed value districts, and recaptures aid, i.e. reduces foundation aid, for high assessed value districts
- Incorporating override revenue in school funding formula would effectively prohibit overrides for all but rich (no state share) school districts

Thank You.

Questions and Comments?