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
Denver, Colorado, February 17, 2016

Andrew Reschovsky, Ph.D.
Fellow, Lincoln Institute of Land Policy
Professor Emeritus, University of Wisconsin-Madison
reschovsky@lafollette.wisc.edu

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
State and Local Property Tax Revenue as a % of Income, 2013

Colorado = 2.9%; U.S. average = 3.1%

Source: U.S. Census Bureau, State and Local Government Finances, Fiscal Year 2013
Homeowner Property Taxes as a Percent of Income, 2010
Colorado Compared to the United States

<table>
<thead>
<tr>
<th>Percent of All Homeowners</th>
<th>United States</th>
<th>Colorado</th>
</tr>
</thead>
<tbody>
<tr>
<td>Under 1%</td>
<td>16.5%</td>
<td>18.8%</td>
</tr>
<tr>
<td>1% to 2.4%</td>
<td>29.0%</td>
<td>29.0%</td>
</tr>
<tr>
<td>2.5% to 4.9%</td>
<td>28.8%</td>
<td>23.6%</td>
</tr>
<tr>
<td>5% to 9.9%</td>
<td>17.3%</td>
<td>8.6%</td>
</tr>
<tr>
<td>10% and above</td>
<td>8.4%</td>
<td>2.7%</td>
</tr>
</tbody>
</table>

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

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

Real Estate Taxes Paid on Owner-Occupied Housing
Colorado Compared to the United States

<table>
<thead>
<tr>
<th>Annual Real Estate Taxes Paid, Owner-Occupied Housing</th>
<th>Percent of Owner-Occupied Housing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Zero</td>
<td>1.4%</td>
</tr>
<tr>
<td>$1 to $799</td>
<td>18.3%</td>
</tr>
<tr>
<td>$800 to $1,499</td>
<td>16.4%</td>
</tr>
<tr>
<td>$1,500 to $1,999</td>
<td>17.7%</td>
</tr>
<tr>
<td>$2,000 to $2,999</td>
<td>15.1%</td>
</tr>
<tr>
<td>$3,000 or more</td>
<td>4.1%</td>
</tr>
</tbody>
</table>

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

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

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


---

### Share of Total Public School Revenue from Property Taxes and from State Aid

**Colorado, 1988-89 to 2012-13**

### Current Spending Per Pupil, Fiscal Year 2013

**Public Elementary and Secondary Education**

<table>
<thead>
<tr>
<th>State</th>
<th>Spending Per Pupil</th>
</tr>
</thead>
<tbody>
<tr>
<td>New York</td>
<td>$19,818</td>
</tr>
<tr>
<td>Alaska</td>
<td>$18,175</td>
</tr>
<tr>
<td>District of Columbia</td>
<td>$17,953</td>
</tr>
<tr>
<td>Median state</td>
<td>$10,490</td>
</tr>
<tr>
<td>Alabama</td>
<td>$8,755</td>
</tr>
<tr>
<td><strong>Colorado</strong></td>
<td><strong>$8,647</strong></td>
</tr>
<tr>
<td>South Dakota</td>
<td>$8,470</td>
</tr>
<tr>
<td>Arizona</td>
<td>$7,208</td>
</tr>
<tr>
<td>Idaho</td>
<td>$6,791</td>
</tr>
<tr>
<td>Utah</td>
<td>$6,555</td>
</tr>
</tbody>
</table>

**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 performing 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

[Pie chart showing Colorado School District Revenue by Source, FY 2014]

- Property Tax-Debt Service: 8.2%
- Property Tax-Mill Levy Overrides: 8.6%
- Property Tax-Local Program Funding: 19.1%
- Other Sources: 1.2%
- Federal Revenue: 7.4%
- Other Aid in Total Program: 37.9%
- State Aid in Total Program: 4.8%
- Other Local Revenue: 12.0%
Colorado’s School Aid Formula

Revenue per Pupil

Assessed Value per Pupil

Local Taxes

State Aid

Mill Levy
Overrides per Pupil

Funding Level per pupil

No. of districts

20
22
36
35
40
16
9
24

Net Program State Aid by Assessed Value per Pupil, FY 2016

No. of districts

20
22
36
35
40
16
9
24

Revenue per Pupil

Assessed Value per Pupil

Local Taxes

State Aid

Mill Levy
Overrides per Pupil

Funding Level per pupil

Net Program State Aid per Pupil, FY 2016

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

12
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
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
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?