K-12 Education Budget Outlook

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Colorado School Finance Project
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K-12 Education Budget Outlook

State Aid
• State revenue is coming in strong…but for how long?
• What do TABOR surpluses mean for the budget?

Local Share
• How much will the residential assessment rate fall?

2018 Election
• How will the outcome impact K-12?
School Finance Formula

Total Program Funding = State Aid + Local Share

State Aid
- General Fund & SEF
  - Income Taxes
  - Sales Taxes

Local Share
- Property & Specific Ownership Taxes

Federal Funds are separate from the formula.

SEF = State Education Fund.
Statewide Education Budget: Total Program Funding

By Share
- Local Share
- State Aid

By Formula
- Total Program
- Modified Total Program

Billions of Dollars

FY 2018-19*
- $7.09 billion
- $461 million relative to FY 2017-18
- 8.66% Budget Stabilization Factor
- State Education Fund near depleted
- Strong General Fund budget outlook

FY 2019-20*
- $295 million
  ($186M state aid + $109M local share, assuming 3.2% inflation, stable BS Factor, $100M SEF end balance)

Source: Joint Budget Committee and Legislative Council Staff.  *Subject to change with future legislation.
School Finance Formula: Total Program

Billions of Dollars

Budget Stabilization Factor

Modified Total Program

Source: Joint Budget Committee and Legislative Council Staff. *Subject to change with future legislation.
Statewide Average Per Pupil Funding

Not adjusted for inflation

FY 2003-04: $5,943
FY 2005: $6,074
FY 2006: $6,168
FY 2007: $6,359
FY 2008: $6,661
FY 2009: $6,874
FY 2010: $7,077
FY 2011: $7,813
FY 2012: $6,474
FY 2013: $6,653
FY 2014: $7,026
FY 2015: $7,320
FY 2016: $7,420
FY 2017: $7,662
FY 2018: $8,137

Source: Joint Budget Committee and Legislative Council Staff. *Subject to change with future legislation.
School Finance Formula

Total Program Funding = State Aid + Local Share

State Aid: General Fund & SEF
- Income Taxes
- Sales Taxes

Local Share: Property & Specific Ownership Taxes

Federal Funds are separate from the formula.

SEF = State Education Fund.
Expectations for the Economy

• **U.S and Colorado economies will accelerate in 2018**

• **Growth will slow in 2019 and 2020 as the economic expansion matures**
  - Tightening labor markets
  - Rising inflationary pressures
  - Higher interest rates

• **Risks to the forecast remain elevated**
  - Late stages of the economic expansion
  - International trade disputes, global economic contagions
Following double-digit growth in FY 2017-18, revenue growth is expected to moderate

Gross General Fund Revenue
Billions of Dollars

14.1% increase in FY 2017-18
- Wage gains and business profits
- Rebound in energy and manufacturing
- Federal tax policy distortions
- $113.3 million in one-time Tobacco MSA payments

Source: Colorado Office of the State Controller and Legislative Council Staff September 2018 forecast.
General Fund Reserve

Dollars in Millions

<table>
<thead>
<tr>
<th></th>
<th>Last Year FY 2017-18</th>
<th>Current Year FY 2018-19</th>
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<tbody>
<tr>
<td><strong>Surplus</strong></td>
<td>$599.5M</td>
<td>$229.5M</td>
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<tr>
<td><strong>6.5% Reserve</strong></td>
<td>$674.9M</td>
<td>$813.3M</td>
</tr>
<tr>
<td><strong>12.3% Reserve</strong></td>
<td></td>
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Change relative to June for FY 2018-19: +$136.9 million attributable to stronger expectations for income and sales tax collections in both FY 2017-18 and FY 2018-19

Source: Legislative Council Staff September 2018 forecast based on current law.
Next Year | FY 2019-20 Budget Outlook

General Fund available above FY 2018-19 appropriations to spend, save, or return to taxpayers

$1.16 billion*

*Reflects revenue expectations, transfers, and TABOR refunds required under current law for FY 2019-20. Since a budget has not yet been set for FY 2019-20, this amount assumes FY 2018-19 appropriations and reserve requirements.

Any changes to current law, including FY 2018-19 appropriations, will result in changes to this amount.

Source: Legislative Council Staff September 2018 forecast based on current law and FY 2018-19 appropriations. See Table 1 of the September forecast document for more information.
TABOR Outlook
Revenue Subject to TABOR
Dollars in Billions

Referendum C Cap
Five-Year Timeout Period

Expected TABOR Surpluses
TABOR Limit Base

Source: Colorado Office of the State Controller and Legislative Council Staff September 2018 forecast.
TABOR refund mechanisms are triggered in the order below based on the size of a TABOR surplus

1) Up to the full reimbursement amount to local governments for the senior homestead and disabled veteran property tax exemptions.*

2) Subject to sufficient revenue, a temporary reduction in the individual income tax rate from 4.63% to 4.5% (would require at least a $400 million surplus).

3) Any left over is distributed via the six-tier sales tax refund mechanism. These refunds are paid when taxpayers file their income taxes and are based on a taxpayer’s filing status and adjusted gross income.

*Pursuant to SB17-267, the TABOR refund is first allocated toward reimbursements to local governments for the senior homestead and disabled veteran property tax exemption. Local government reimbursement amounts are not affected.
Expected TABOR Refunds

Dollars in Millions

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<tbody>
<tr>
<td>Refunded in Tax Year:</td>
<td>2018</td>
<td>2019</td>
<td>2020</td>
<td>2021</td>
</tr>
</tbody>
</table>

Source: Colorado Office of the State Controller and Legislative Council Staff September 2018 forecast.

*This amount includes the $16.2 million FY 2017-18 surplus and $21.3 million in under-refunds from the FY 2014-15 surplus.
Risks to the Forecast

• **Near-term (FY 2018-19) risks are skewed to the upside**
  - Strong economic activity
  - Oil and gas activity
  - Federal tax policy distortions
  - Out-of-state sales tax collections

• **Longer-term risks are skewed to the downside**
  - Slower growth and rising risk of recession as the economic expansion matures

• **Higher than usual uncertainty clouds the outlook**
  - Unknown impacts of federal tax law changes
  - Out-of-state sales tax collections
School Finance Formula

Total Program Funding = State Funding + Local Share Funding

State Funding
- General Fund & SEF
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Local Share
- Property & Specific Ownership Taxes

SEF = State Education Fund.
Colorado Property Tax Base

Actual Values

Assessment Rate

Assessed Values

Residential 7.20% * 
Nonresidential 29% **

Gallagher Amendment
Target Share

Residential 45%
Nonresidential 55%

Actual Share

Residential 75%
Nonresidential 25%

Residential Assessment Rate

*2017 and 2018 Residential Assessment Rate.

**Assessment rate for most nonresidential property (87.5% rate for Oil and Gas).
The residential assessment rate and mill levies have declined over time, pushing down the local share of school finance funding.

**Residential Assessment Rate**

[Graph showing the residential assessment rate from 1983 to 2017 with key events such as TABOR 1992, Amendment 23 2000, Mill Levy Freeze 2007, and estimated RAR.

Source: Colorado Department of Local Affairs, Division of Property Taxation. *Legislative Council Staff December 2017 forecast.*
Note: Prior to 1993, K-12 funding was allocated on a calendar year basis.
Assessed values under current assessment rates
Actual Values × Assessment Rate = Assessed Values

Non-Residential
29% assessment rate

Residential

Target Percentage
7.20% RAR

Source: Division of Property Taxation and Legislative Council Staff December 2017 forecast.
Assessed values under forecast assessment rates

Actual Values × Assessment Rate = Assessed Values

Non-Residential
29% assessment rate

Target Percentage

Residential

Reduction in the Tax Base

Source: Division of Property Taxation and Legislative Council Staff December 2017 forecast.
Change in Residential Assessed Values by County
2016 to 2017

Source: Department of Local Affairs, Division of Property Taxation.
Change in Total Assessed Values by County
2016 to 2017

Source: Department of Local Affairs, Division of Property Taxation.
2018 Ballot Measures with Budget Impacts

• Amendment 73  (School Funding)
• Propositions 109 and 110  (Transportation Funding)
• Proposition 112  (Oil and Gas Setbacks)

For more information, see the 2018 Blue Book: www.ColoradoBlueBook.com
# Current Law Transportation Funding

**SB17-267**: $1.88 billion from lease purchase agreements  
$150 million annual repayment\(^1\)  

**SB18-001 General Fund transfers**  
- **FY 2018-19**: $495 million  
- **FY 2019-20**: $150 million

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## SB18-001 Funding Contingencies & General Fund Impacts

<table>
<thead>
<tr>
<th></th>
<th>Proposition 109</th>
<th>Proposition 110</th>
<th>If both fail, SB1 refers a 2019 Measure</th>
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</thead>
<tbody>
<tr>
<td><strong>TRANs Issuance</strong></td>
<td>$3.5 billion</td>
<td>Allows $6.0 billion</td>
<td>$2.34 billion</td>
</tr>
<tr>
<td><strong>Sales &amp; Use Tax Increase(^1)</strong></td>
<td>None</td>
<td>~$767 million</td>
<td>None</td>
</tr>
<tr>
<td><strong>Future SB17-267 lease purchase agreements</strong></td>
<td>Repealed</td>
<td>Remain Enact</td>
<td>Repealed</td>
</tr>
<tr>
<td><strong>TRANs repayment costs(^1)</strong></td>
<td>$260 million</td>
<td>$470 million</td>
<td>$122.6 million</td>
</tr>
<tr>
<td><strong>Estimated new net General Fund obligation(^1,2)</strong></td>
<td>$137.4 million</td>
<td>$25 million</td>
<td>-$72.7 million</td>
</tr>
</tbody>
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1Average annual amount over a 20-year period.  
2Estimates net out transfers and TRANs repayment costs from the General Fund under current law and each measure.
Summary and Takeaways

Expectations

• Constitutional constraints will persist
• More money available in the General Fund
• More competition for General Fund moneys

To be determined…

• 2018 election outcomes
• The budget stabilization factor will be in play, the question is how much?
• Elevated risks and uncertainties on tax policy changes

…Stay tuned for the December forecast.
Questions?

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