



K-12 Education Budget Outlook

Kate M. Watkins | Chief Economist | Legislative Council Staff

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?

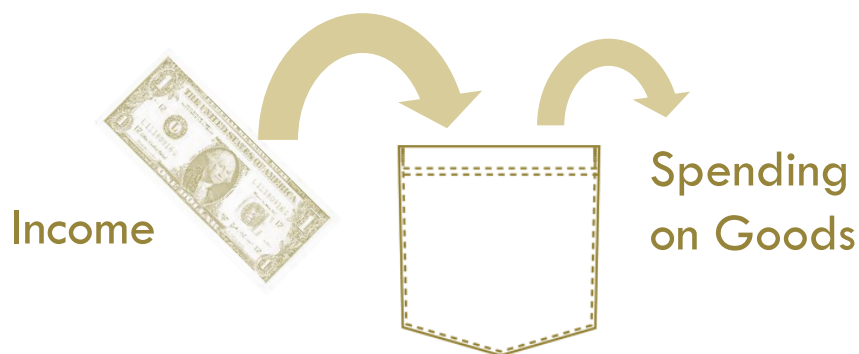
School Finance Formula

Total Program Funding = **State Aid** + **Local Share**

State Aid
General Fund & SEF

- Income Taxes
- Sales Taxes

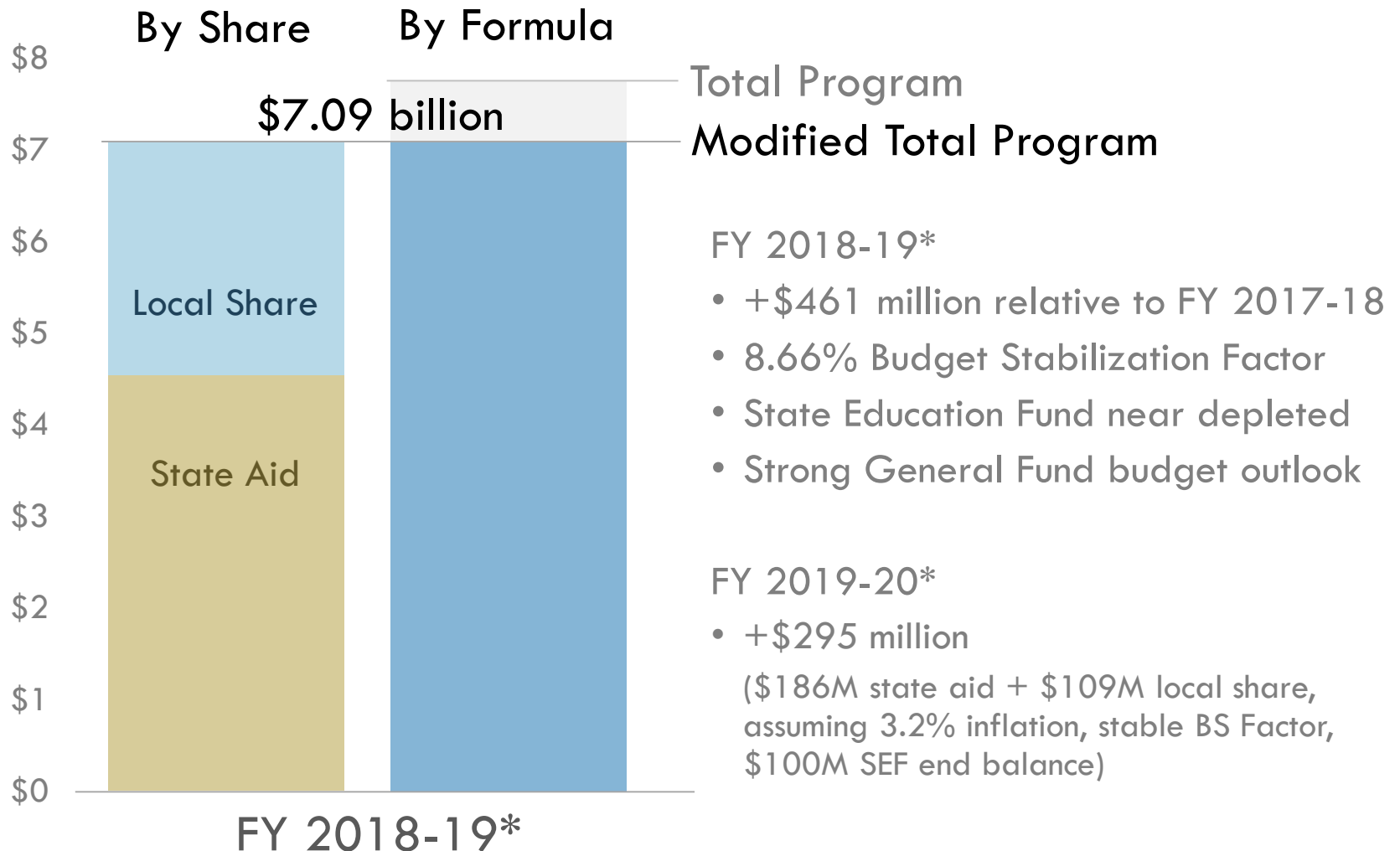
Local Share
Property & Specific Ownership Taxes



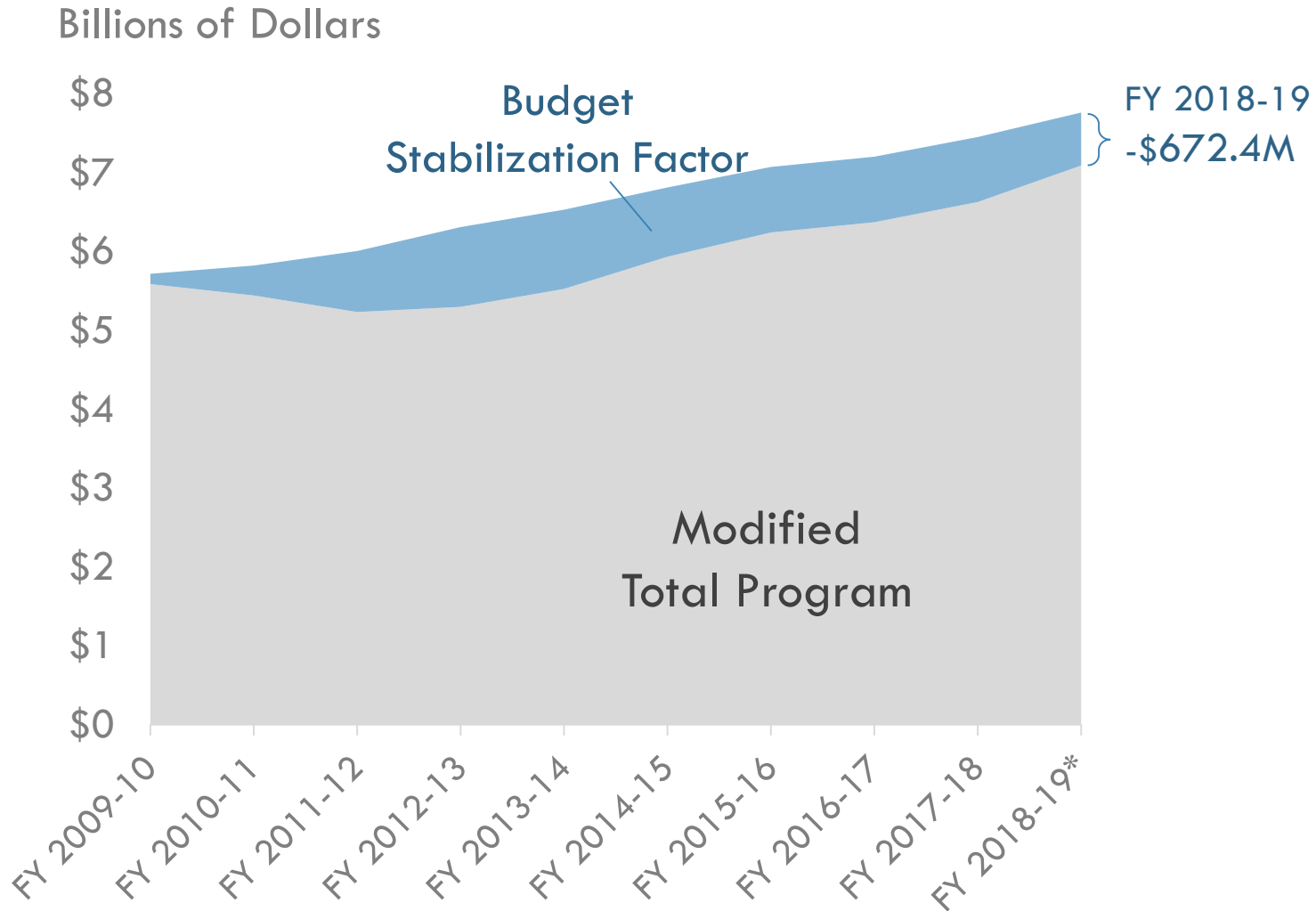
Federal Funds are separate from the formula.

Statewide Education Budget: Total Program Funding

Billions of Dollars



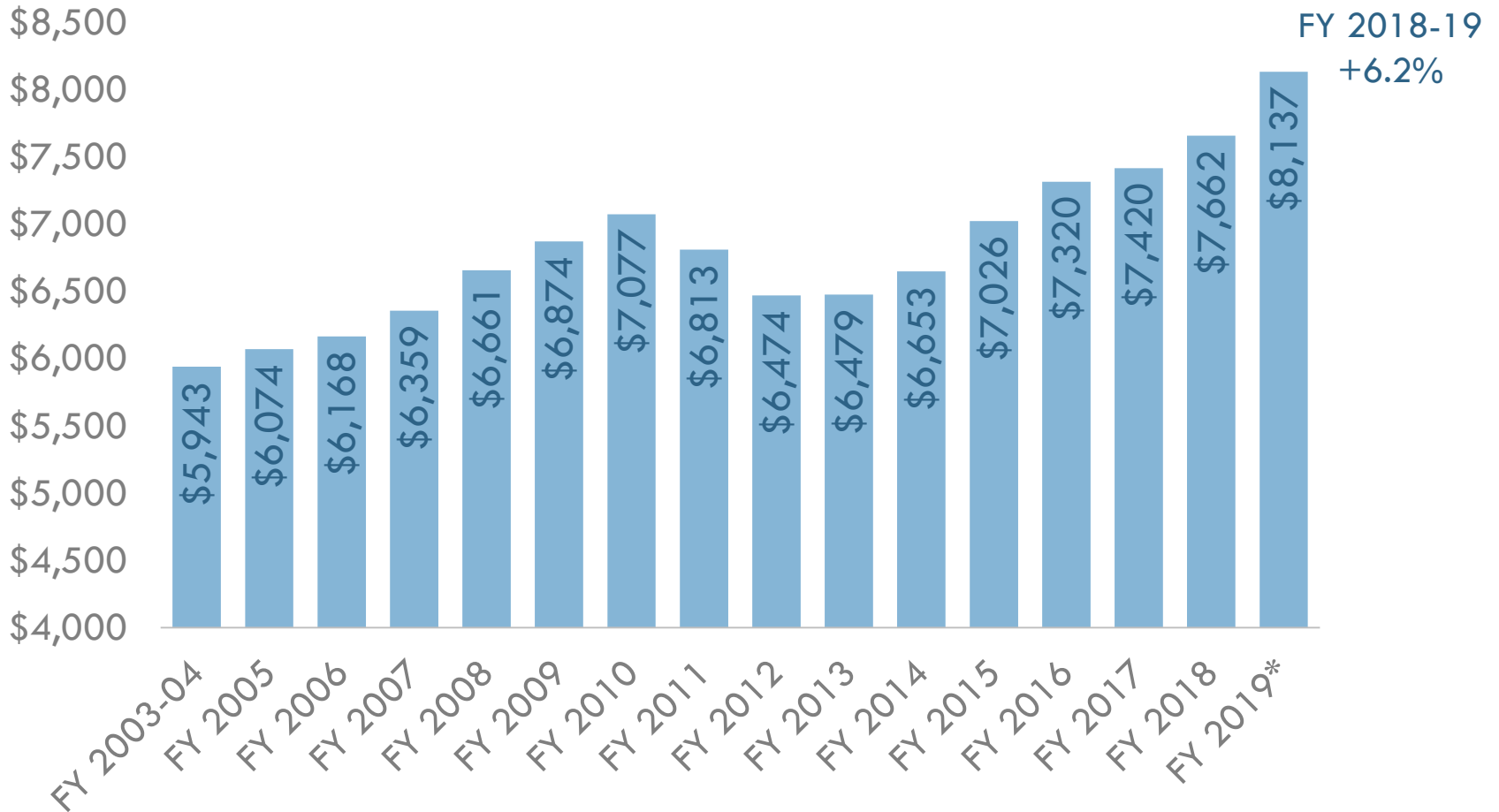
School Finance Formula: Total Program



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

Statewide Average Per Pupil Funding

Not adjusted for inflation



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

School Finance Formula



Federal Funds are separate from the formula.

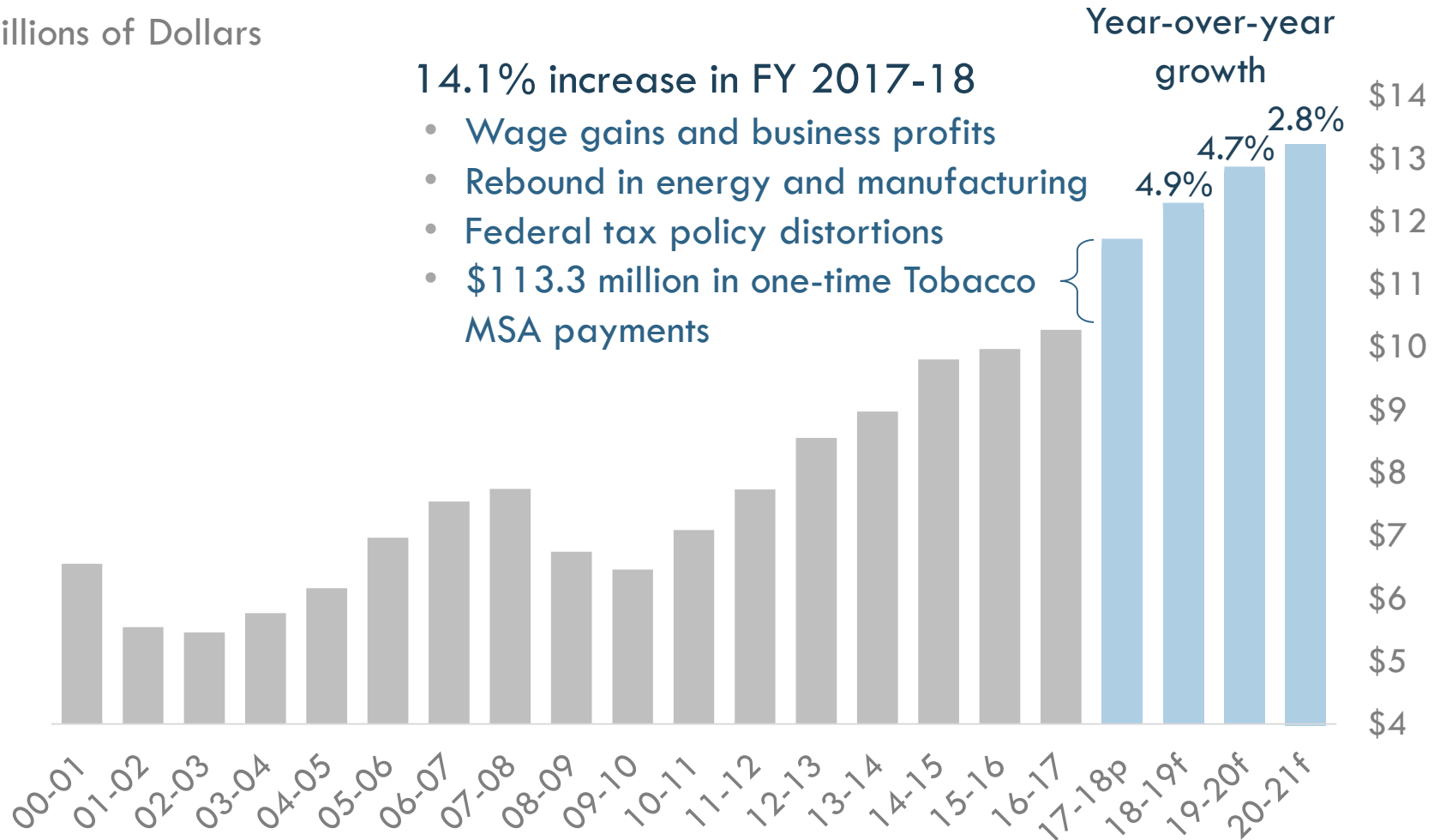
Expectations for the Economy

- 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

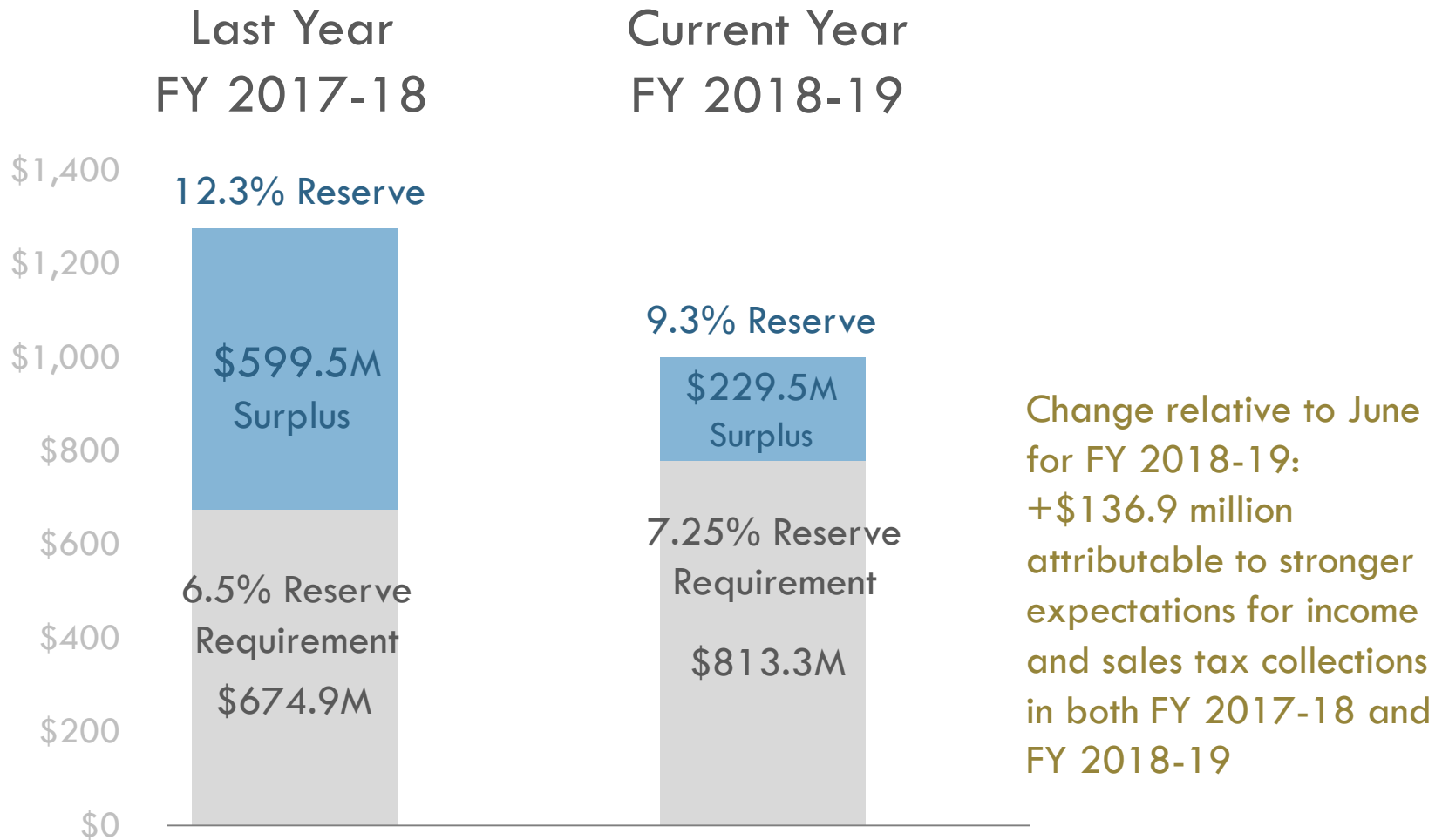
Gross General Fund Revenue

Billions of Dollars



General Fund Reserve

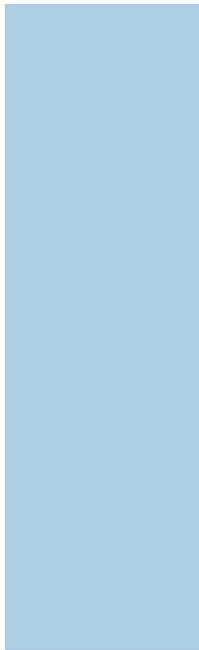
Dollars in Millions



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*



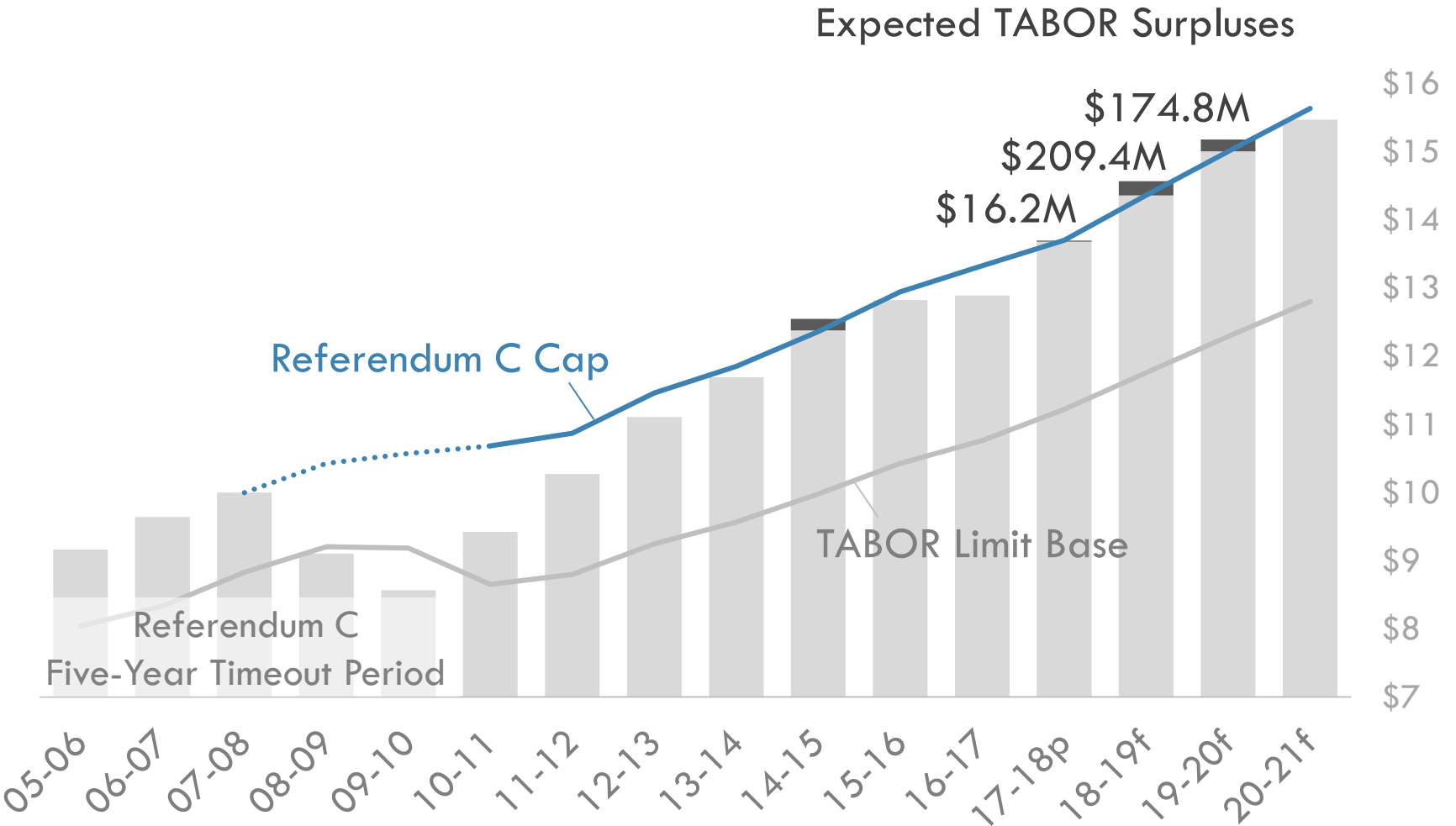
*Reflects revenue expectations, transfers, and TABOR refunds required under current law for FY 2019-20. Since a budget has not yet been set for FY 2019-20, this amount assumes FY 2018-19 appropriations and reserve requirements.

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

TABOR Outlook

Revenue Subject to TABOR

Dollars in Billions



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

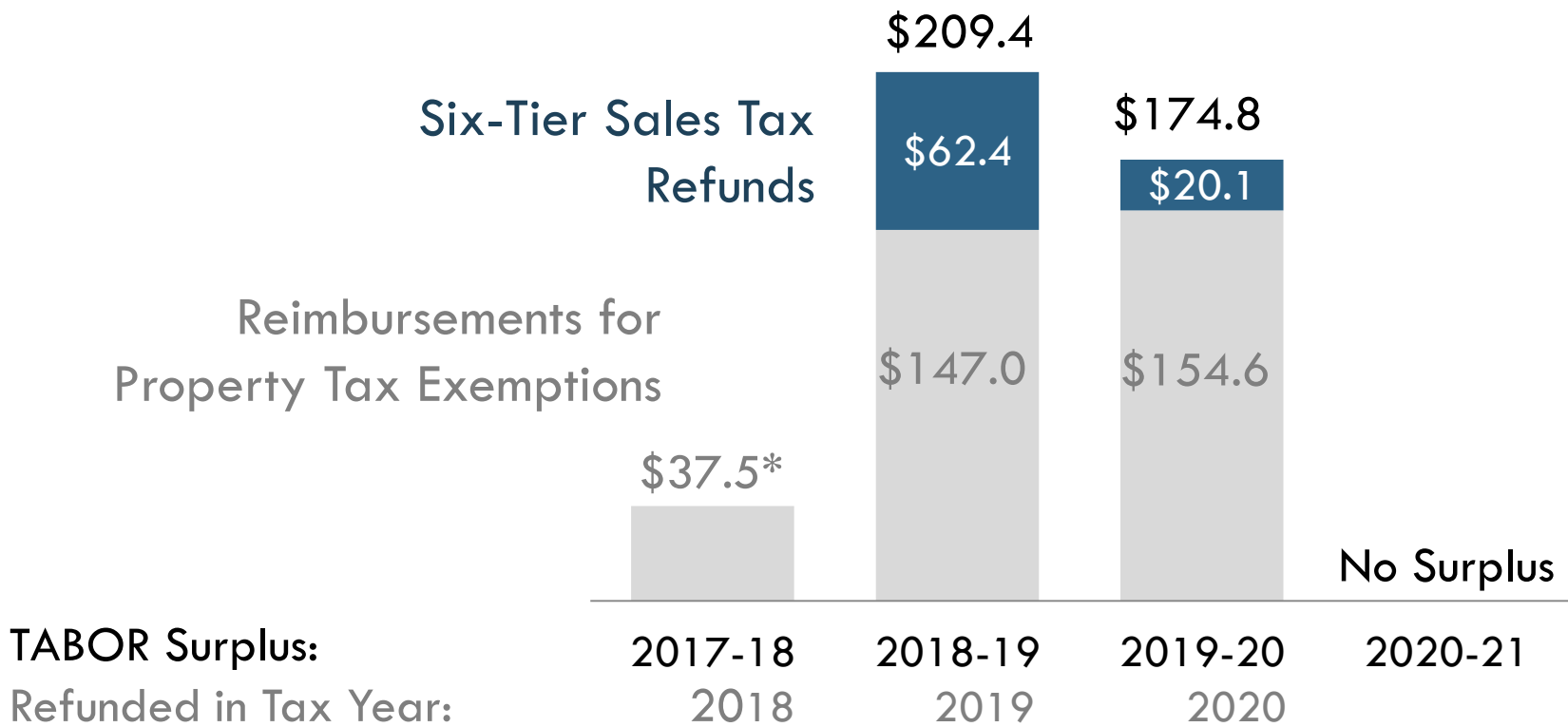
TABOR refund mechanisms are triggered in the order below based on the size of a TABOR surplus

- 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



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

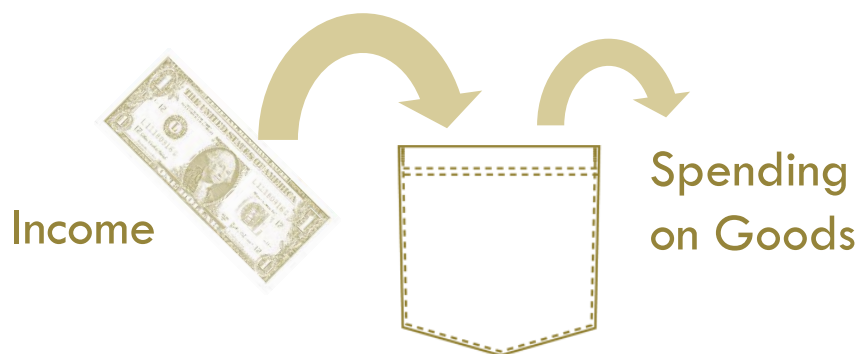
...Larger TABOR surplus?
- **Longer-term risks are skewed to the downside**
 - Slower growth and rising risk of recession as the economic expansion matures
- **Higher than usual uncertainty clouds the outlook**
 - Unknown impacts of federal tax law changes
 - Out-of-state sales tax collections

School Finance Formula

Total Program = State Funding +
Funding

General Fund & SEF

- Income Taxes
- Sales Taxes



Local Share

Property &
Specific Ownership Taxes



Federal Funds are separate from the formula.

Colorado Property Tax Base

Actual Values



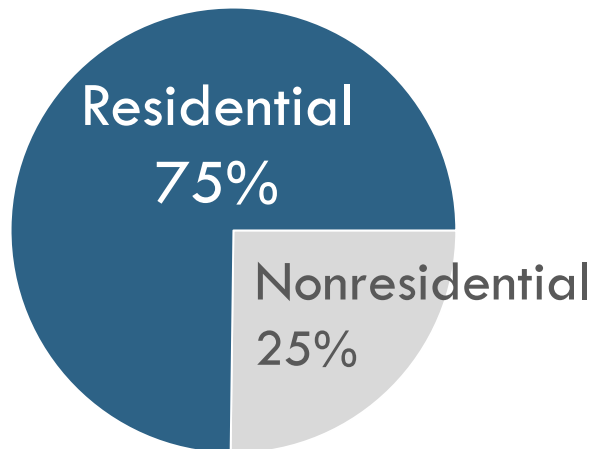
Assessment Rate

× 7.20% Residential*
29% Nonresidential**

Assessed Values

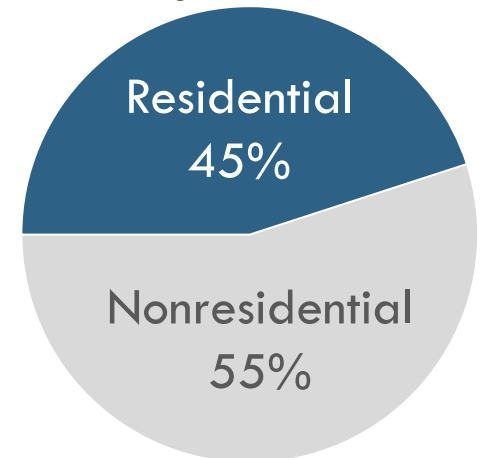


Actual Share



Residential
Assessment
Rate

Gallagher Amendment
Target Share

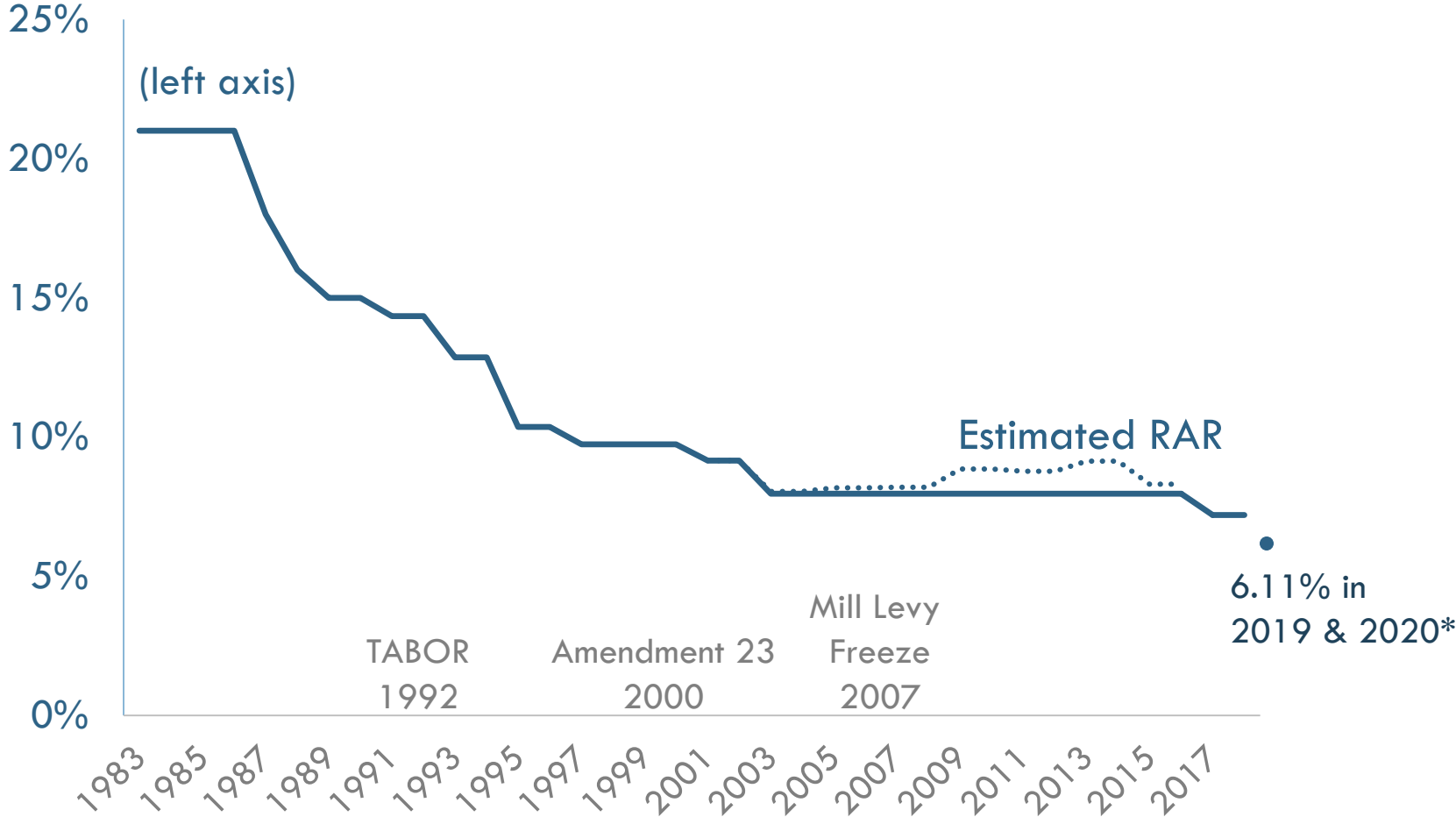


*2017 and 2018 Residential Assessment Rate.

**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

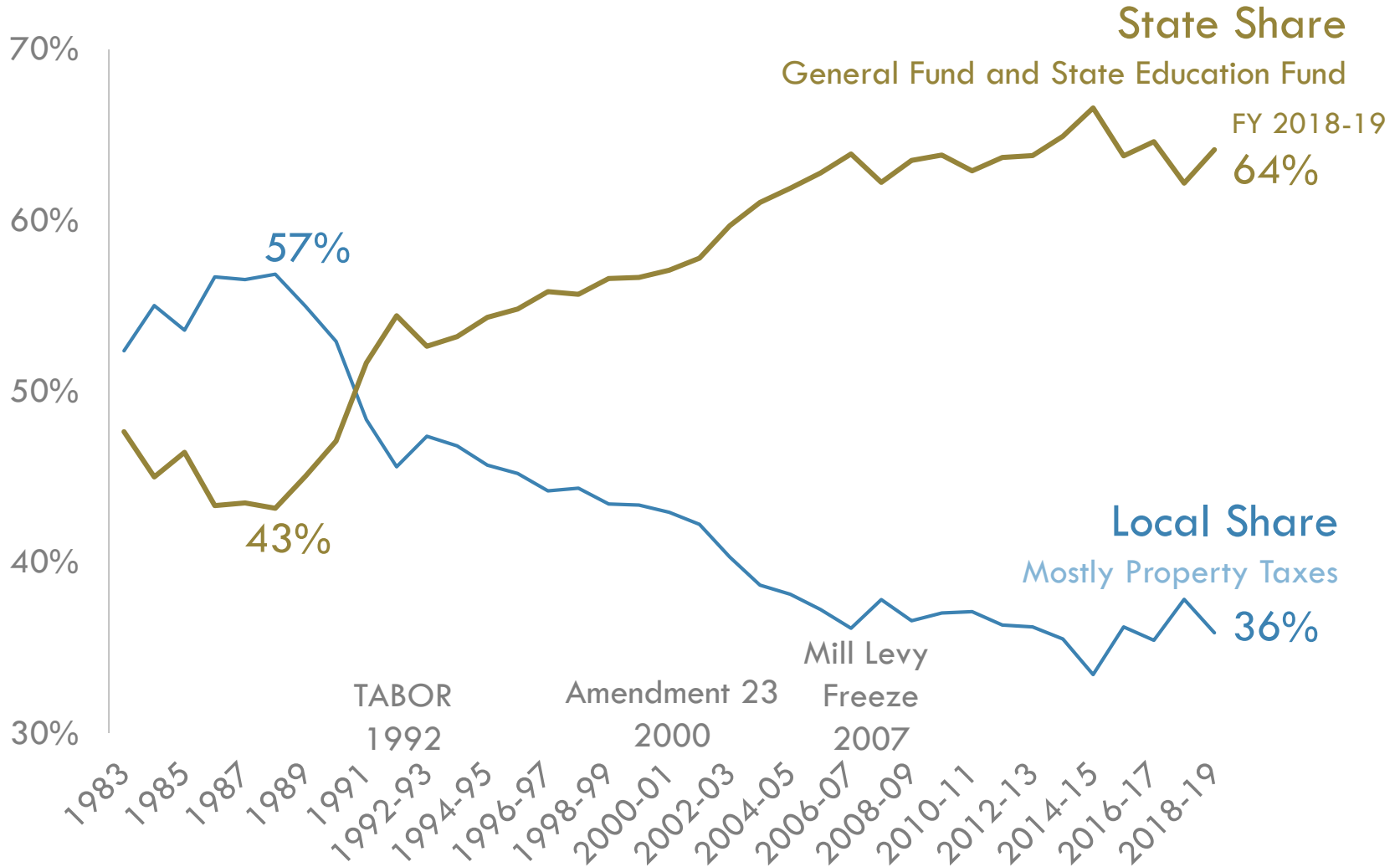
Residential Assessment Rate



Source: Colorado Department of Local Affairs, Division of Property Taxation. *Legislative Council Staff December 2017 forecast. 18

State and Local Shares of School Finance

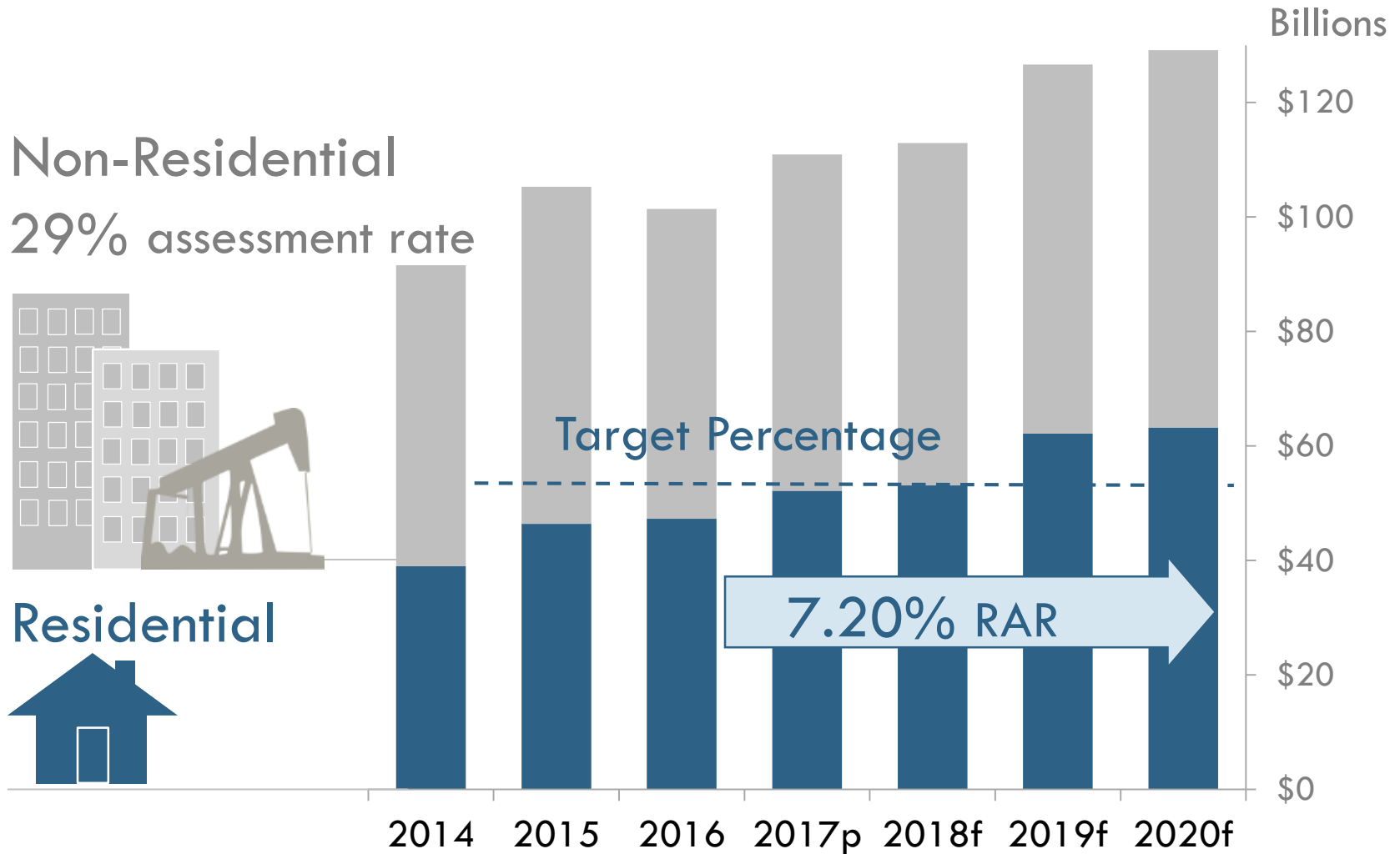
State + Local
Share



Note: Prior to 1993, K-12 funding was allocated on a calendar year basis.

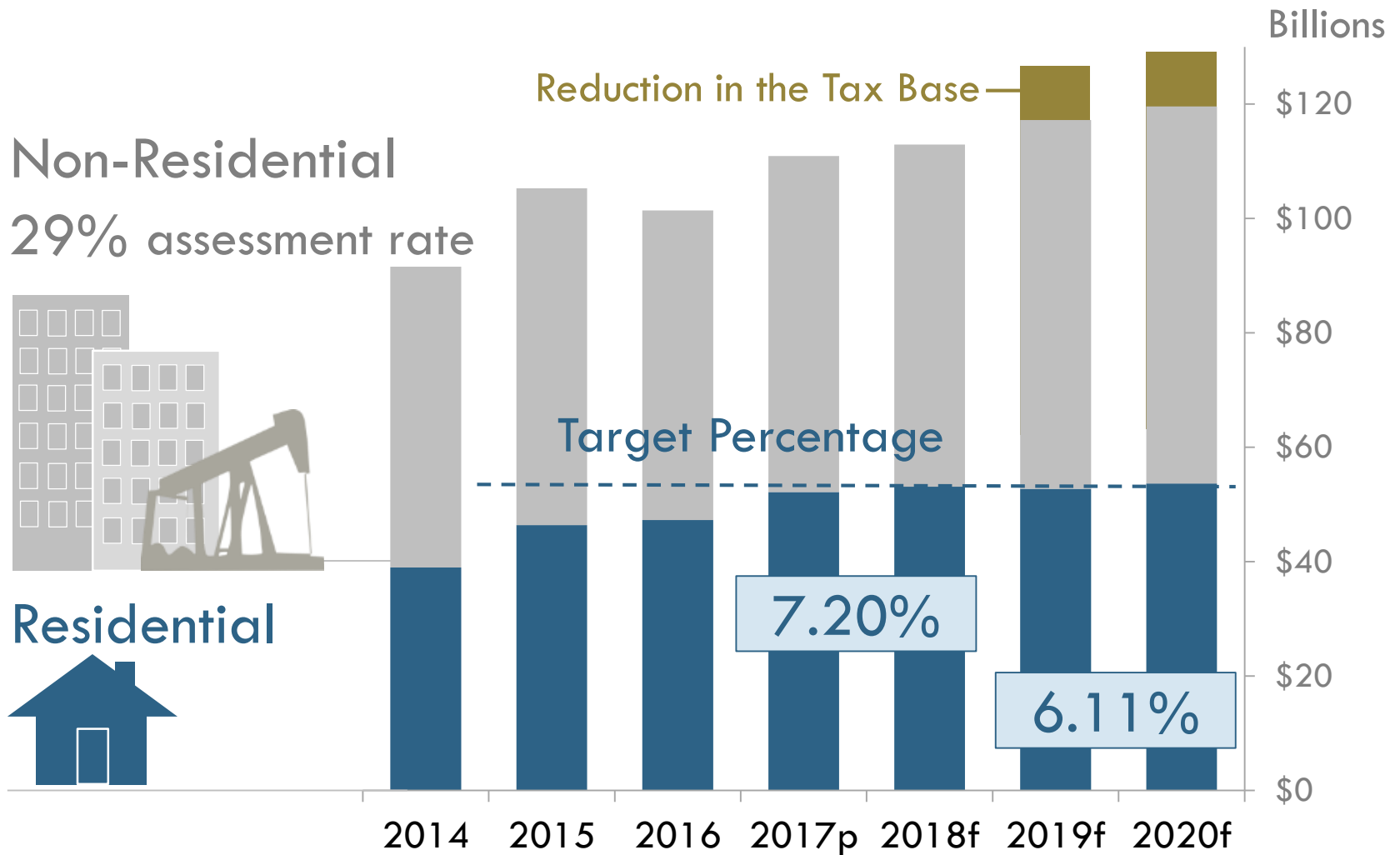
Assessed values under current assessment rates

$$\text{Actual Values} \times \text{Assessment Rate} = \text{Assessed Values}$$

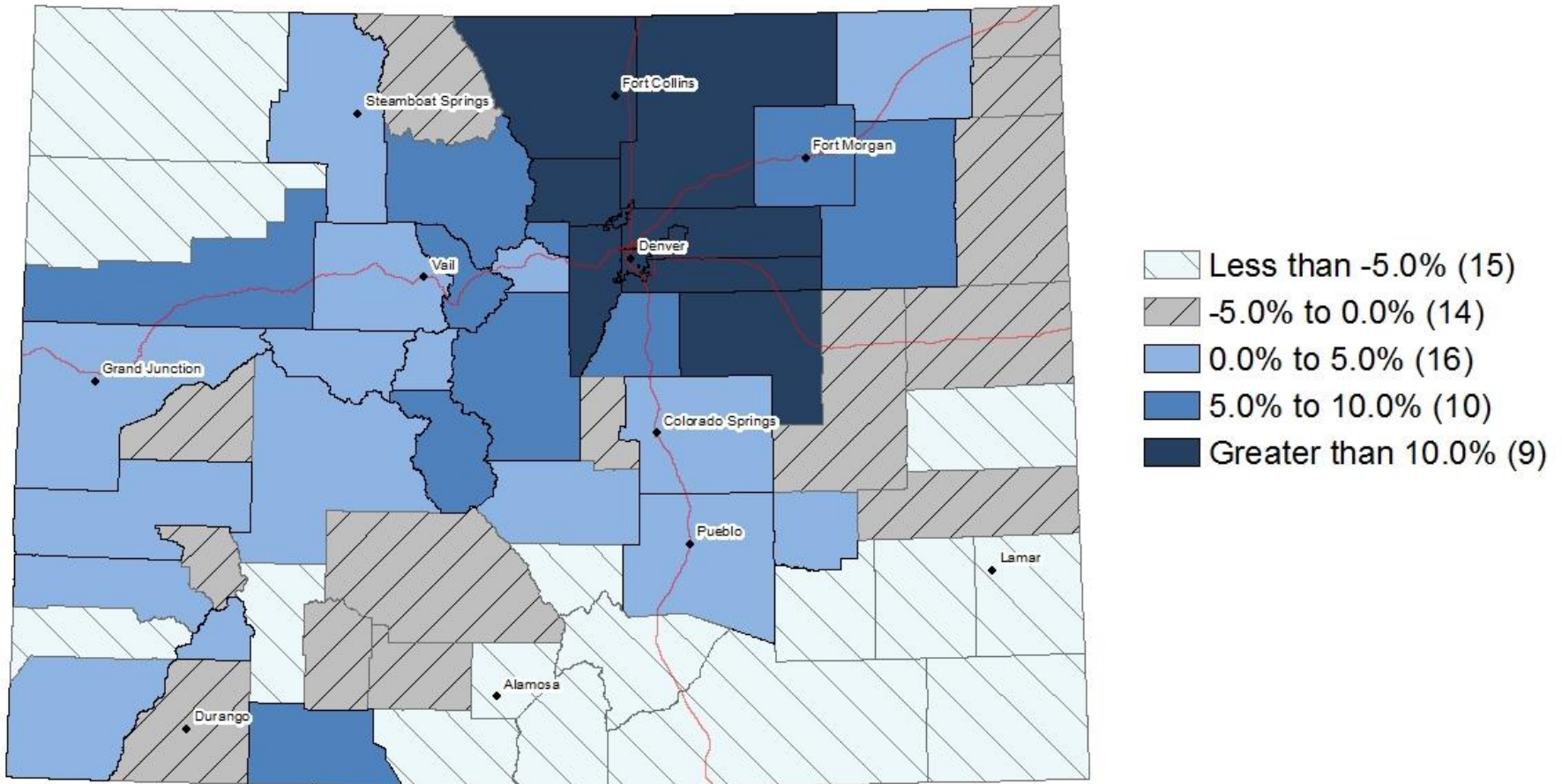


Assessed values under forecast assessment rates

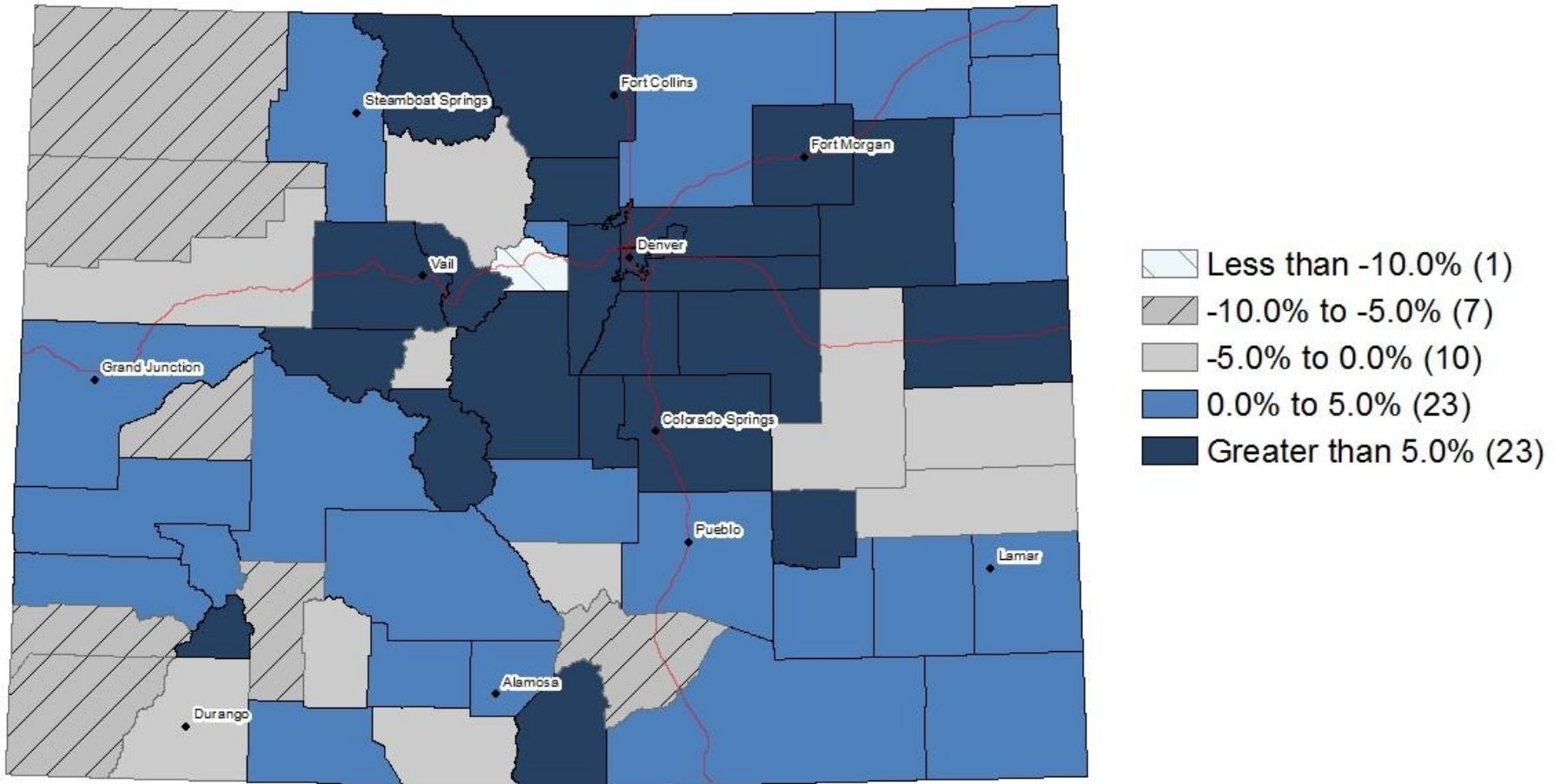
Actual Values × Assessment Rate = Assessed Values



Change in Residential Assessed Values by County 2016 to 2017



Change in Total Assessed Values by County 2016 to 2017



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 repayment¹

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

SB18-001 Funding Contingencies & General Fund Impacts

	Proposition 109	Proposition 110	If both fail, SB1 refers a 2019 Measure
TRANs Issuance	\$3.5 billion	Allows \$6.0 billion	\$2.34 billion
Sales & Use Tax Increase ¹	None	~\$767 million	None
Future SB17-267 lease purchase agreements	Repealed	Remain Enact	Repealed
TRANs repayment costs ¹	\$260 million	\$470 million	\$122.6 million
Estimated new net General Fund obligation ^{1,2}	+\$137.4 million	+\$25 million	-\$72.7 million

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?

Kate Watkins

Chief Economist • Legislative Council Staff
kate.watkins@state.co.us • (303) 866-3446
www.leg.colorado.gov/lcs

