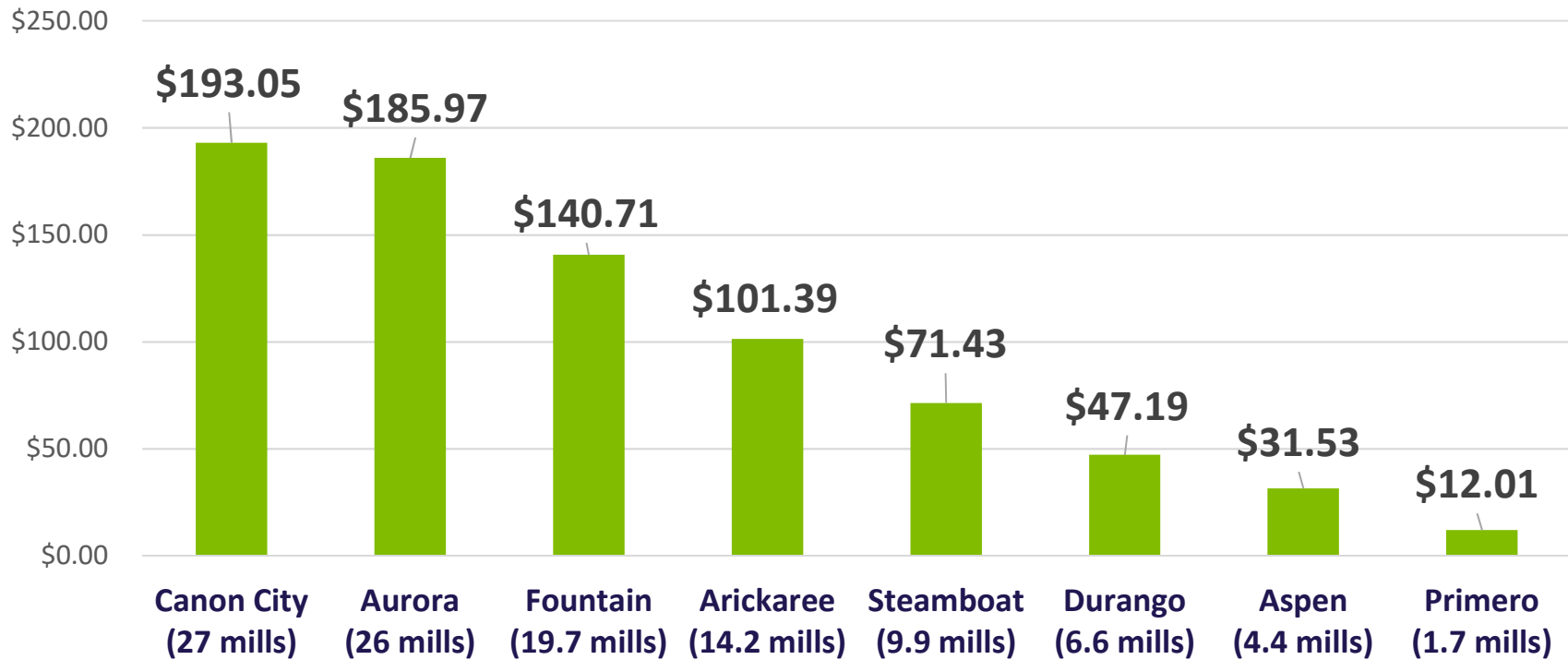


# **Update from Joint Budget Committee Members on Issues Related to School Finance**

School Finance Legislative Interim Committee Meeting  
October 21, 2019

# Taxpayer inequality in Colorado

Taxpayer Contribution per \$100k of Home Value in 2019\*



\*Takes into account 2019 Residential Assessment Rate of 7.15%

## What's a mill levy?

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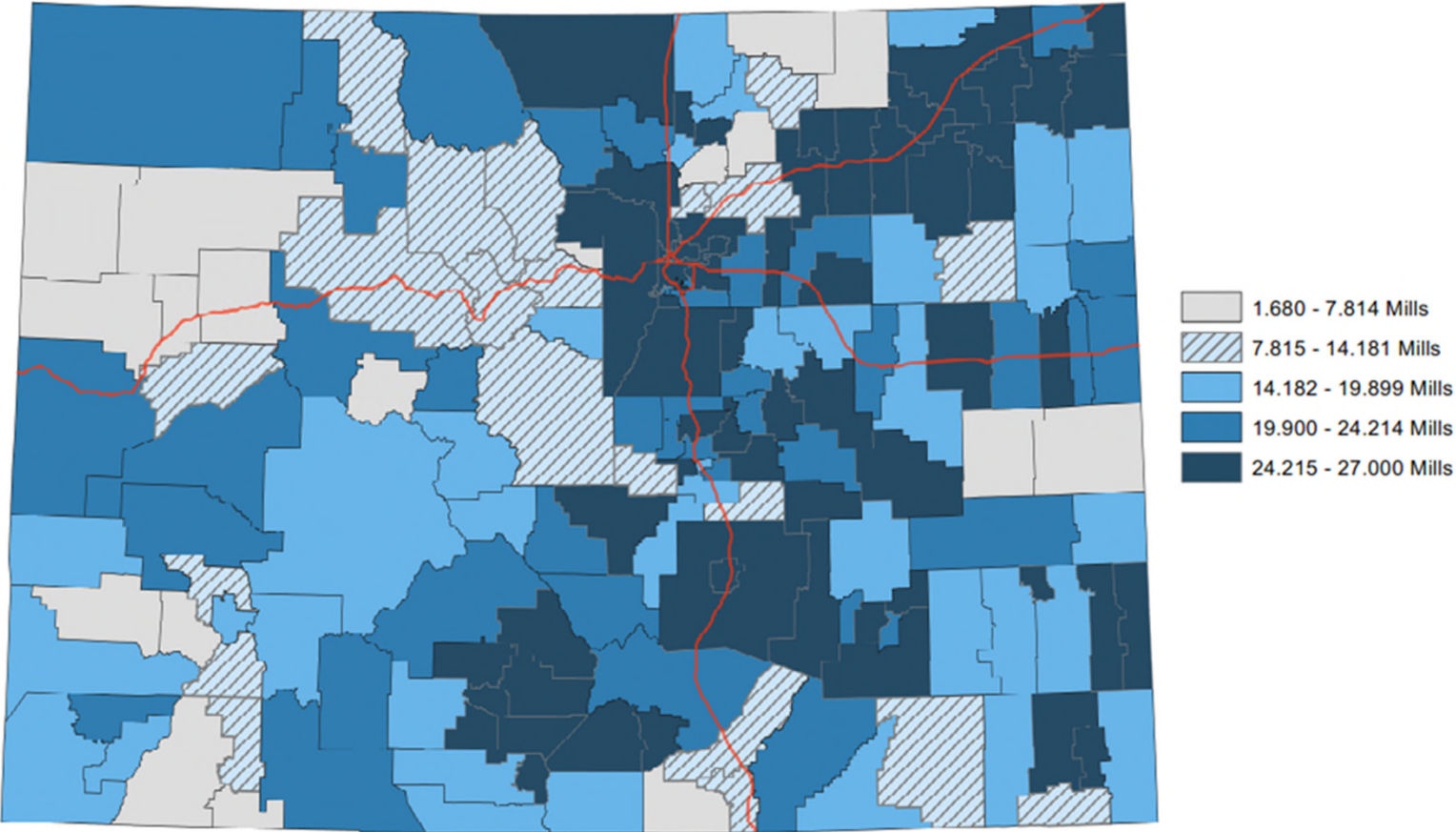
- *Total Program Mill Levy* = Property Tax Rate
- Assessed/Taxable Value (determined by Gallagher) x Mill Levy = Property Tax Amount
  - One mill = 1 / 1000, so 27 mills = .027
  - Each district has its mill levy set each year in statute
  - **TOTAL PROGRAM MILL LEVY  $\neq$  MILL LEVY OVERRIDE**
  - TPMLs range from 1.68 mills to a ceiling of 27 in CO

### *Pueblo Homeowner Example:*

\$175,400 (Market Value) x .0715 (7.15% Residential Assessment Rate) x .027 (27 Mills) =  
**\$338.61 annual payment for K-12 total program**

# FY 2019-2020 Total Program Mill

Levies



Map prepared by Legislative Council Staff.

# Disparate levies: How did we get here?

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**1988:** School Finance Act of 1988 instituted a statewide uniform mill levy to equalize local effort and reduce reliance on the local share.

**1992:** Voters pass TABOR, which constrains local revenues and reduces mill levies to stay under caps. Districts with rapid AV growth see mill levies drop, and they cannot float back up.

**1991:** By 1991, districts had largely transitioned to a uniform mill levy of 40.08 mills (except for districts fully funded locally at a lower level).

**2007:** Mill levy freeze (S.B. 07-199) for most districts freezes in place existing inequities.

# Why does this matter?

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- Impact on taxpayers
  - 16x variation in local investment in K-12 (via the tax rate)
  - Current mill levies tend to be regressive
  - Subsidization of low mill levies through income/sales tax
- Impact on school districts
  - Districts taxed at a higher rate struggle to raise overrides
- Impact on the state budget
  - Local revenue declining over decades has put unsustainable pressure on the budget because of the required backfill of low mill districts

## Why take this on?

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- A tax system with no intentional design or coherent policy rationale to support it is not a good tax system
- Tax equity should be evaluated at the level of the taxpayer (via the tax rate), and the state's role should be to equalize for inherent differences in tax *base* across the state, not tax *rate*

## **A proposal to equalize property tax rates**

- Authorize districts to increase their total program mill levy, with local voter approval, to a level consistent with current high-mill districts
- Institute phase-in period by which districts on track to increase TPML would realize additional revenue; those not on track would gradually see state share of funding reduced
- As an option (not a requirement), allow districts to repurpose voter-approved mill levy overrides as total program mill levies

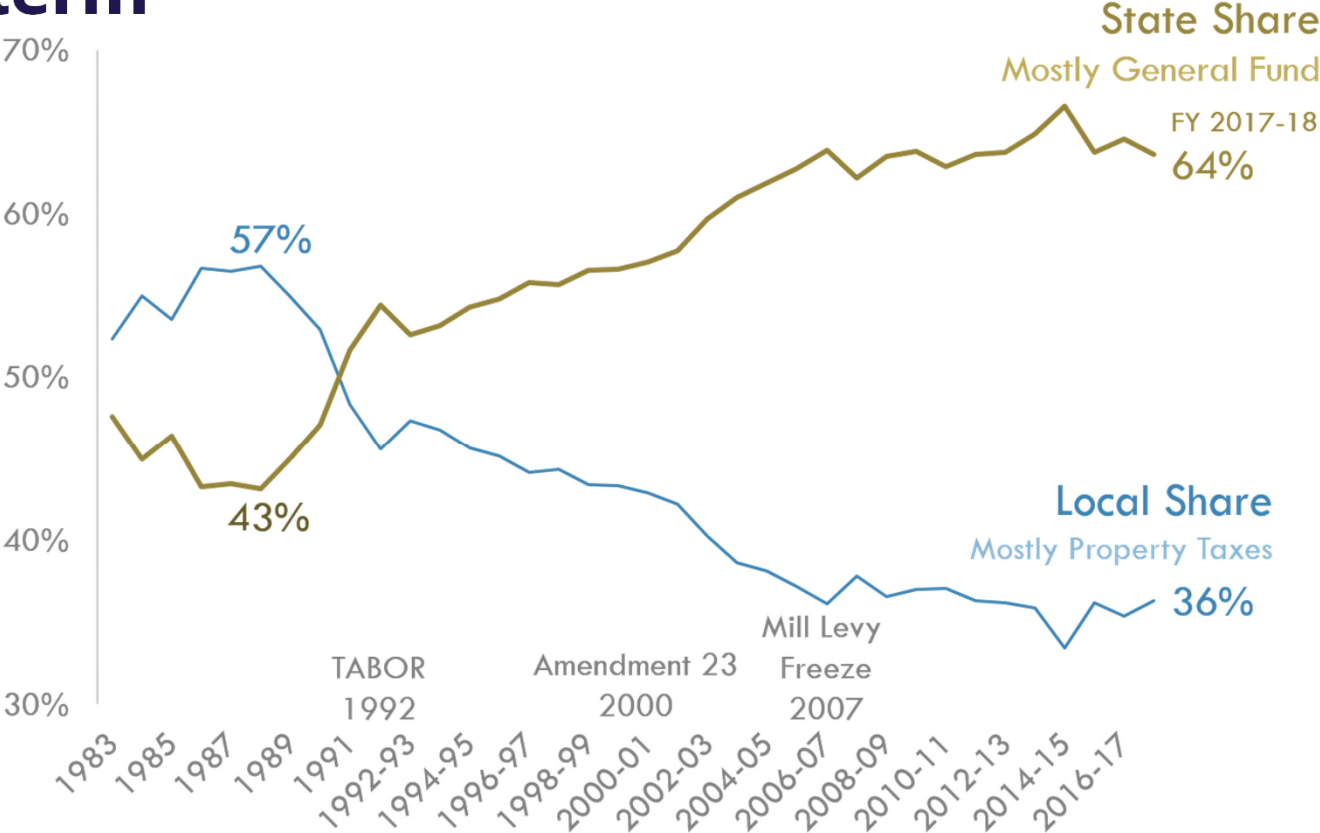


## Goals of uniform total program mill proposal

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- Improve *equity between taxpayers* in Colorado
- Improve *equity between districts* by leveling the playing field of investment in education
- Improve school funding *adequacy* by increasing property tax revenue and investing those dollars into education
  - New, sustainable local revenue if all districts at 27 mills or fully funded locally = \$437M
- Improve long-term *sustainability* of K-12 funding by rebalancing local and state share contributions and relieving pressure on the state budget

# Unsustainability of K-12 finance over the long-term



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

## Questions to address

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- At what level should the “uniform” mill be set?
  - Discussion has centered on 27 mills or fully funded locally
- What does the on-ramp look like for districts and their voters to get there over time?
  - Possible hybrid option where a majority of districts are given a number of years to get to 27, while those with complicating factors could have a longer phase-in or hold harmless period
- What does the safety net look like for districts with unsupportive voters?
  - No district may fall more than XX% below total program funding

## Questions to address

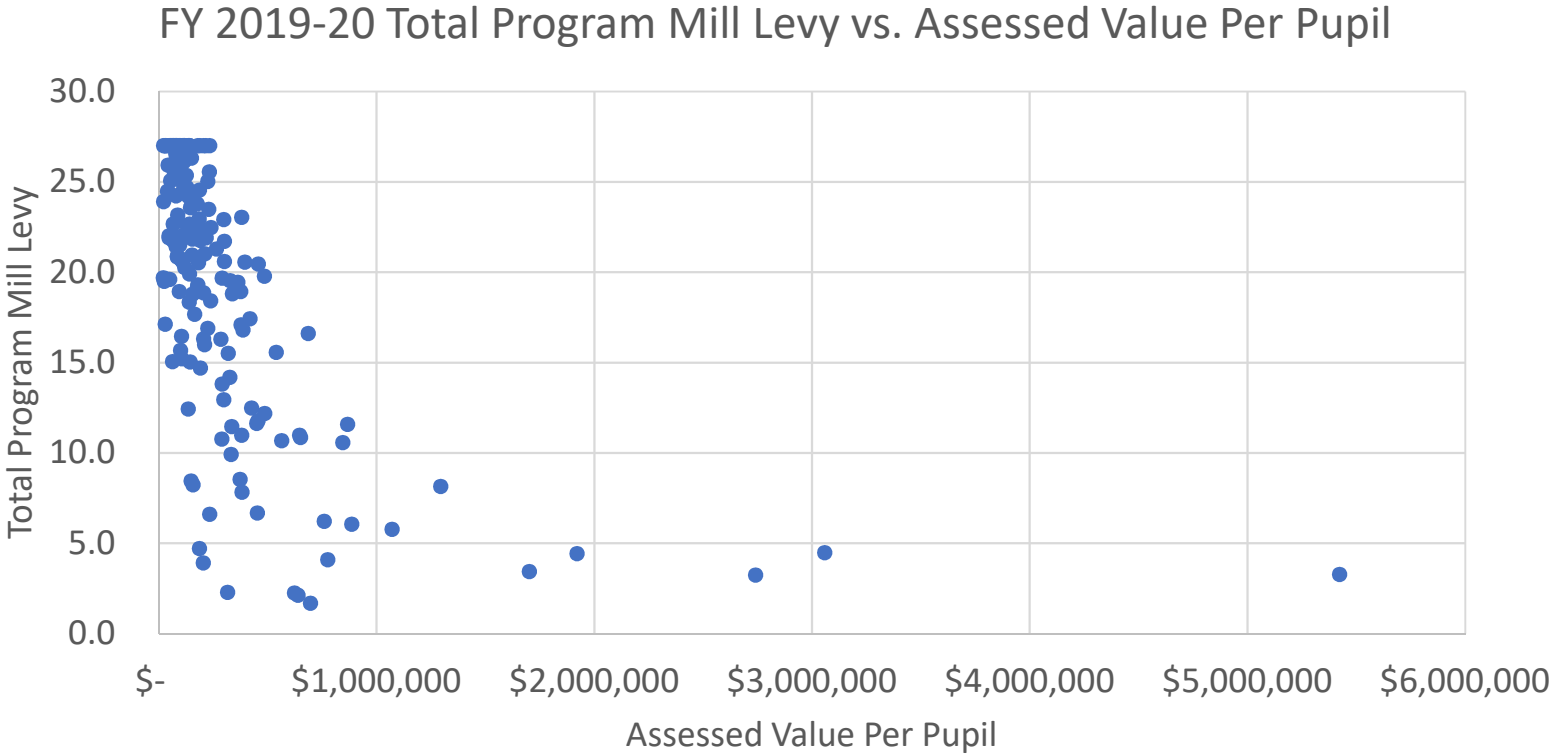
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- What incentives can be built in to compel voters to support raising their total program mill levy? Examples:
  - Provide election technical assistance for districts that would have to go to voters
  - Use a portion of the state share that would become available over time to create a “Mill Levy Override Equalization Fund” for districts with low assessed value per pupil
  - Increase the mill levy override cap for districts at 27 or fully funded locally
- How does this proposal fit into the larger picture of statewide efforts to address our Constitutional structure and school funding situation?

**Extra Slides (if needed)**

# Regressive Property Tax Rates

*Bottom line: Mill levies are generally regressive – they are higher for districts with lower property values per pupil.*

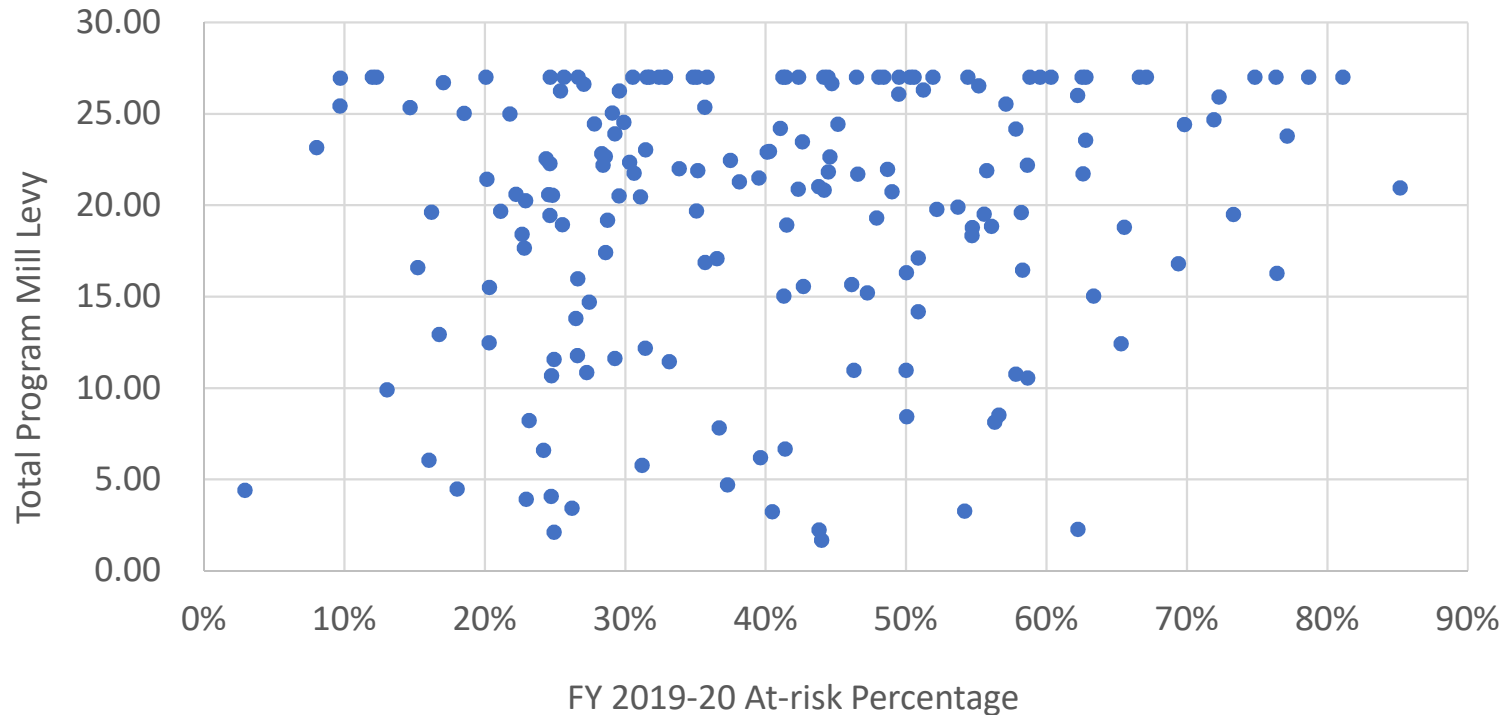


# Total Program Mill Levy vs. At-risk

## Percentage

Bottom line: Mill levies vary significantly between districts with similar at-risk populations with no discernible pattern/policy rationale.

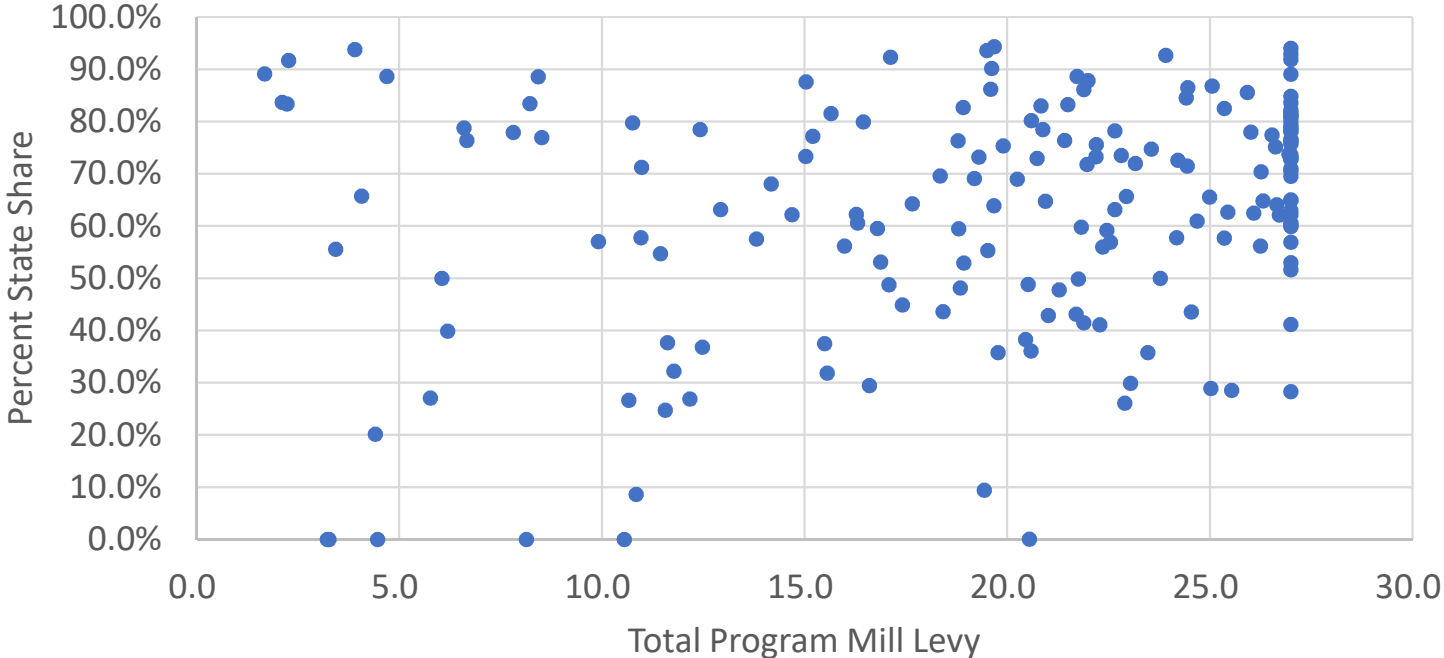
FY 2019-20 Total Program Mill Levy vs. At-risk Percentage



# Double Duty

*Bottom line: State share subsidizes low mill (and in many cases high capacity) districts.*

FY 2019-20 Percent State Share vs. Total Program Mill Levy





# TPML interaction with overrides

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*Bottom line: Higher overrides per pupil where there are lower total program mill levies*

