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?

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

*Pueblo Homeowner Example:*
$175,400 (Market Value) \( \times \) .0715 (7.15% Residential Assessment Rate) \( \times \) .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?

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?

- 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?

• 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

- 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
Questions to address

• 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

• 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.

FY 2019-20 Total Program Mill Levy vs. Assessed Value 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.
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](chart.png)
TPML interaction with overrides

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