STAFF BUDGET BRIEFING
FY 2019-20

DEPARTMENT OF EDUCATION

JBC WORKING DOCUMENT - SUBJECT TO CHANGE
STAFF RECOMMENDATION DOES NOT REPRESENT COMMITTEE DECISION

PREPARED BY:
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DECEMBER 4, 2018
ISSUE: TAXPAYER INEQUITY IN THE SCHOOL FINANCE PROPERTY TAX SYSTEM

A mix of local and state revenues support school finance in Colorado. Local funds, primarily from property taxes, form the foundation of school finance funding. State funds make up the difference between the local revenues available and the school district’s total program funding amount calculated through the statutory school finance formula. While variation in local property wealth inherently affects local property tax revenues, disparities in property tax rates (mill levies) are also reducing local revenues for school finance and increasing pressure on the State budget. The resulting system is inequitable for taxpayers and raises questions about whether state aid for school finance is going where it is most needed.

SUMMARY

- Local revenues, primarily from property taxes, provide the first source of funding for school finance in Colorado. State funding then fills the gap between each school district’s local revenues and the district’s total program amount calculated pursuant to the school finance formula.

- Local revenues currently account for 35.9 percent of total program funding statewide in FY 2018-19. Within that statewide average, the local share varies significantly between districts (from 5.3 percent to 99.0 percent of total program) based on differences in both local property wealth and local school finance mill levies.

- In a property tax-supported system, local ability to support total program funding inherently varies based on local property wealth. In Colorado, however, disparate local tax rates (mill levies) supporting total program are undermining taxpayer equity in the statewide system and increasing pressure on the state budget as taxpayers statewide are forced to subsidize the reduced mill levies in specific districts. Under the current system, identical taxpayers (by property value) in different school districts are paying very different tax rates, with state aid forced to cover the differences caused by reduced mill levies.

- Returning to a standard statewide mill levy would improve equity among the State’s taxpayers and direct state aid to districts with lower property values (and lower local capacity to support school finance). Depending on the level of mill levy chosen, a standard mill levy could also either raise additional revenues for school finance (reducing the budget stabilization factor) or allow the State to put state resources into other priorities.

RECOMMENDATION

Staff recommends that the General Assembly return the state to a uniform (statewide) mill levy for school finance property taxes such that each school district’s total program mill levy would be the lesser of the statewide mill levy or the mill levy necessary to fully fund the district’s total program with local revenues. In a change from previous years, staff offers two alternative methods for the Committee’s consideration: (1) a statewide vote to amend the State Constitution and (2) a statutory change that would not require a statewide vote or amendment to the Constitution but would require local votes for some school districts.
Constitutional Change: Under the constitutional option, the General Assembly would refer a statewide measure to the voters that would:

- Return the state to a uniform (statewide) mill levy for school finance property taxes such that each school district’s total program mill levy would be the lesser of the statewide mill levy or the mill levy necessary to fully fund the district’s total program with local revenues.
- Allow mill levies in districts that are fully locally funded (at less than the statewide mill levy) to “float” on an annual basis below the uniform mill levy to continue to fully fund the district without requiring state funds.

Statutory Change: Under the statutory option, the Committee would sponsor legislation that would:

- Define a uniform mill levy aligned with the proposal above based on the General Assembly’s priorities (simply increasing taxpayer equity (revenue neutral, increasing funds available for school finance, etc.).
- Authorize school districts to raise local total program mill levies with local voter approval (current law would not allow districts to do so). Any district that was below the assumed mill levy would need to seek voter approval to raise the local mill levy or face a shortfall in funding.
- Assume that districts are levying the lesser of the uniform mill levy or the mill levy necessary to fully fund the district’s total program.
- Distribute state aid (the state share of total program) to each district based on the assumed mill levy. Districts electing to remain below the standard mill levy would face reduced funding.
- The General Assembly could also create additional incentives to increase local funding (such as linking specific funding to the local district’s effort).

Under either option, staff recommends that the General Assembly phase in significant local mill levy increases over a period of time (e.g., by limiting the amount that a mill levy could increase in any given year).

Staff notes that the statutory option provides additional local control over the mill levy and the district’s level of school finance funding. Local voters would have to approve mill levy increases. The state share would simply assume an equitable level of local effort and target state funds accordingly.

DISCUSSION

INTRODUCTION AND OVERARCHING QUESTIONS
In looking at the revenue system underlying school finance in Colorado, staff recommends that members consider two related and overarching questions.

1. Is the current revenue system underlying school finance fair and equitable to Colorado taxpayers?
2. Does the current revenue system direct state aid to the districts with the greatest need?

Based on the analysis in this briefing issue, staff suggests that the answer to both questions is “no.”

As discussed in detail below, local revenues (driven by property taxes) provide the foundation for school finance funding in Colorado. The two components that determine the amount of state aid
necessary in any given year (for either an individual school district or statewide) are: (1) the amount of local revenue available; and (2) the total program funding amount calculated under the formula (as adjusted by the budget stabilization factor if necessary).

Because state aid fills the gap between local revenues and total program, staff argues that an equitable property tax system is essential. Staff also suggests that the current total program property tax system falls short of that goal.

**TAXPAYER EQUITY**
A discussion of taxpayer equity requires agreement on the meaning of “taxpayer equity.” For purposes of this discussion, staff offers the following definition: An equitable tax system would treat identical taxpayers within the system (measured by property value in the case of a property tax) equally. That definition has implications for school finance.

- Staff argues that *identical taxpayers (based on property value) in districts receiving state funds* should be paying identical amounts in *total program* property taxes (not including overrides). While property taxes are local taxes, staff asserts that the state backfill of revenue shortfalls creates a *statewide system* under which the General Assembly should ensure taxpayer equity.

- If property tax remains the foundation of the school finance system, the State should equalize local capacity (property wealth) based on an equitable system of taxation rather than use state resources to subsidize inequitable tax rates that divert state funds away from school districts with lower property wealth.

As a preview of how the current system compares to that definition, the graph on the following page shows the amount paid on residential properties of *identical value* in seven Colorado school districts and the state share of total program funding (the percentage paid by the State) for each district in FY 2018-19. In all cases, the graph shows the amount paid in total program property taxes on a home valued at $348,900, the statewide median home value in 2017 according to the U.S. Census Bureau.

- Staff notes that *all of these districts are receiving state aid in FY 2018-19*, with the state share ranging from 17.1 percent of total program funding in Clear Creek to 86.1 percent in Garfield 16.

- For any district levying less than 27.0 mills (the current statutory cap and the rate in both Canon City and Pueblo), the state funding is inherently subsidizing the reduced tax rate.

- State aid that could be supporting districts with lower property wealth is instead subsidizing reduced tax rates.

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4 Staff uses the seven districts as illustrative examples throughout this issue brief. Staff selected them based on their familiarity to the Committee rather than as a statistically representative sample.
It is important to note that local school districts do not control the total program mill levy. Rather, the mill levy changes have been the result of factors beyond the districts’ control (changes in assessed value and the implications under the Taxpayers Bill of Rights, discussed in detail below). Thus, while the divergence in mill levies raises significant equity concerns between taxpayers and school districts, school districts have generally not taken any actions to manipulate the system to their advantage. Instead, external factors have largely imposed the current system on local school districts and taxpayers.

The following sections provide additional background on the school finance system in Colorado, the history and mechanisms that have created the current patchwork of mill levies, illustrative examples of the impact of potential changes to the property tax system, and additional discussion of the implications of this system for equity among school districts and taxpayers.

**BACKGROUND: TOTAL PROGRAM FUNDING AND THE STATE AND LOCAL SHARE**

As discussed in the General Factors Driving the Budget section, the School Finance Act calculates a total program funding amount for each of Colorado’s 178 school districts by building on a statewide base per pupil funding amount to account for specific factors that affect the cost of delivering educational services (district size, cost of living, and at-risk students).

- Local revenues, primarily from property taxes, provide the foundation of funding for school finance in Colorado.
- The state share of funding then fills the gap between local revenues available to each district and the total program funding amount calculated through the school finance formula.

For FY 2018-19, the school finance formula (before the application of the budget stabilization factor) calls for a total of $7.8 billion in total program funding. The current (2018 Session) state appropriation for FY 2018-19 builds on an estimated $2.5 billion in local funds. Thus, prior to the application of the
budget stabilization factor, the formula would require $5.2 billion in state funding in FY 2018-19, which would represent 67.2 percent of total program funding. However, the available State revenues could not support that appropriation. The General Assembly appropriated $4.5 billion in state funds for FY 2018-19, leaving a shortfall (the budget stabilization factor) of $672.4 million, which reduces each district’s total program funding by 8.7 percent (with the entire reduction coming from the state share).

**FY 2018-19 TOTAL PROGRAM FUNDING (2018 SESSION APPROPRIATION)**

While the Committee and the General Assembly generally focus on the aggregate statewide amount (with all state funding for total program included in a single line item), the combination of the school finance formula and differences in the availability of local revenues generates significant differences between school districts.

- Current total program funding per pupil in FY 2018-19 (after the application of the budget stabilization factor) varies from a low of $7,668 in Las Animas – Branson to a high of $17,280 in Elbert – Agate.
- The local share of funding also varies widely. Local funding supports only 5.5 percent of total program in El Paso – Fountain. Meanwhile, Cripple Creek (Teller County) is currently entirely supported with local funds (the budget stabilization factor reduction eliminates the state share).

As shown in the graph on the following page, the split between state and local funds can vary significantly even among districts with relatively similar per pupil funding.
LOCAL SHARE: PROPERTY TAXES ARE THE DRIVER

Although both property taxes and specific ownership taxes (paid with vehicle registrations) support the local share, property taxes are the driver. For example, property taxes provide $2.4 billion (92.8 percent) of the anticipated local share statewide in FY 2018-19, while specific ownership taxes provide $183.8 million (7.2 percent).

Because of the heavy reliance on property taxes for the local share of funding, two variables largely determine the local share available for each school district: 1) the school district’s assessed property value and 2) the local mill levy.

- The assessed value (AV) is the taxable portion of property value in the school district and dictates how much a revenue a given mill levy will raise. As an index of property wealth, AV varies widely among school districts. Current estimates for FY 2018-19 range from $5.8 million in El Paso-Edison to $16.2 billion in Denver. To the extent that a district’s AV is highly linked to volatile
industries such as oil and gas, the AV may also vary significantly from year to year based on prices and production.

- The total program mill levy is the property tax rate for each school district. Statutory and constitutional requirements (discussed below) determine each district’s mill levy each year, and there is no local control of the total program mill levy. The enactment of S.B. 07-199 (School Finance) established a ceiling of 27.0 mills for the total program mill levy and effectively froze the mill levies for most school districts; as result, most district mill levies have been unchanged since FY 2007-08. However, as discussed below, district mill levies diverged significantly prior to 2007 and, in some cases, district rates have continued to decrease since 2007.

Using those two variables, each school district’s property tax revenue is the result of multiplying the assessed value by the local mill levy.

<table>
<thead>
<tr>
<th>Assessed Value</th>
<th>Mill Levy</th>
<th>Property Tax Revenue</th>
</tr>
</thead>
</table>

The local share is then the sum of the school district’s property tax and specific ownership tax.

<table>
<thead>
<tr>
<th>Property Tax</th>
<th>S.O.T.</th>
<th>Local Share</th>
</tr>
</thead>
</table>

State aid then fills the difference between the district’s local revenues and the district’s total program funding.

<table>
<thead>
<tr>
<th>Total Program</th>
<th>Local Share</th>
<th>State Share</th>
</tr>
</thead>
</table>

STATE AID: EQUALIZING DISPARITIES IN PROPERTY WEALTH AND MILL LEVIES
In school finance terms, this system of funding is called “equalization” because it allows similar districts (based on the factors included in the formula) to spend similar amounts regardless of property wealth. (Please note that this equalization only includes total program funding calculated pursuant to the formula. None of the calculations regarding the state share of funding incorporate locally approved mill levy overrides, and the state appropriations for school finance do not equalize local overrides.)

According to independent experts that have previously presented to the Committee, a preferred school finance system assumes equal levels of local effort (as measured by the mill levy) and then

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5 One “mill” equals one-tenth of one percent (0.001). For a property with an actual value of $100,000 and an assessed value of $7,200 (based on the 7.20 percent assessment rate for residential property), each mill of tax would raise $7.20.

6 For additional discussion, see the Legislative Council Staff Publication “School Finance in Colorado”, available at: http://leg.colorado.gov/publications/school-finance-colorado-booklet
equalizes funding to account for differences in property wealth using the state share. In Colorado, however, the current school finance system is forcing the state share to equalize disparities in both variables of the property tax calculation: 1) local property wealth (measured in this issue brief as assessed value per pupil) and 2) local school finance mill levies. Each variable is discussed below.

**Disparities in Assessed Value per Pupil**

A district’s total assessed value determines the total amount of revenue that a mill levy will produce. However, any consideration of a district’s local revenue capacity (ability to support total program) must also include the pupil count (the revenue available per pupil). Thus, staff’s analysis uses assessed value per pupil as the measure of each district’s local property wealth and revenue capacity.

As one would expect, assessed value per pupil varies across the state, ranging from a low of $19,320 in El Paso - Fountain to a high of $3.2 million in Weld - Pawnee in FY 2018-19 (see the map below). School districts with high assessed value and relatively low pupil counts (such as rural districts with significant oil and gas development) have high assessed value per pupil, indicating a high capacity to support school finance with local revenues. Conversely, districts with either relatively low assessed value or high pupil counts will generally have a lower assessed value per pupil, indicating a comparatively low local capacity on a per pupil basis.

**FY 2018-19 Estimated Assessed Value per Pupil**

Differences in assessed valuation create dramatic differences in districts’ ability to support operations with local revenues:

- With only 84.4 funded pupils and $3.2 million per pupil in assessed value, Weld – Pawnee could fully fund total program (and eliminate the district’s budget stabilization factor) in the current year by levying 5.36 mills, an increase of 1.1 mills above the district’s current 4.29 mills but 21.36 mills below the level in 39 school districts where taxpayers are currently paying 27.0 mills.
- At the other extreme, with 206.2 pupils and $28,004 per pupil in assessed value, El Paso – Edison would have to levy 514.06 mills to fully fund the district’s total program, more than 95 times the mill levy required in Weld – Pawnee. El Paso – Edison is at the current statutory ceiling of 27.0 mills, more than six times the current mill levy in Weld – Pawnee.

As an additional illustration, the following graph shows the number of mills that would be necessary to fully fund total program in the seven illustrative districts used in this issue brief relative to the current statutory ceiling of 27.0 mills. As shown in the table, Clear Creek could fully fund at 16.7 mills (an increase of 4.2 mills above its current mill levy), while Pueblo (City) would have to levy 144.4 mills to fully fund its total program.

Staff notes the following:
- Given the dramatic differences in local capacity (and the often prohibitive tax rates that would be required to support school finance), many districts simply cannot fully fund total program with local revenues.
- Equalization school finance systems are designed to address these differences in local capacity and ensure that similar school districts (based on the factors in the formula) receive similar levels of total program funding, including both state and local funds, regardless of the level of local property wealth. This is the State’s mechanism to provide the thorough and uniform system required by the Colorado Constitution.

Staff argues that an equitable system (from the taxpayers’ perspective) would build on consistent local effort, as measured by the mill levy, and target more state funds to districts with lower property wealth and local revenue capacity. However, as discussed in the following section, Colorado’s current system also requires the State to subsidize inequitable local tax rates.
DISPARITIES IN LOCAL MILL LEVIES

Colorado previously had a consistent statewide mill levy to support school finance. Recognizing the inequities and inefficiencies created by a disparity in mill levies, where high property value districts had low mill levies and low property value districts had high mill levies, the School Finance Act of 1988 implemented a uniform statewide mill levy (originally set at 40.08 mills) and intended to phase that mill levy in over time. For example, that Act (as adjusted by H.B. 90-1314) required most school districts to impose a consistent mill levy of 37.0 mills in 1992 unless the school district would be fully locally funded at a lower mill levy.

However, since that time the implementation of the Taxpayers’ Bill of Rights (TABOR, coincidentally approved by the voters in 1992) has driven disparities in local mill levies.

- Under TABOR, school districts’ revenues can only grow annually at a rate of inflation (measured as the Denver-Boulder-Greeley consumer price index) plus the change in pupil count. If revenues exceed that limit and the school district has not obtained voter approval to retain excess revenues, the school district must reduce the mill levy to remain within the revenue limit. Importantly, once the mill levy “ratchets” down, it remains down regardless of future changes in assessed value. As a result, school districts remain at the reduced mill levy even when assessed values decrease, resulting in a revenue reduction that the State must backfill. As an illustration, the following chart shows total assessed property value in the Primero School District in Las Animas County and the school district’s total program mill levy for FY 1993-94 through FY 2018-19. Primero’s assessed value increased largely as a result of oil and natural gas development but has since declined. The increase in assessed valuation pushed the district’s mill levy down from the uniform level of 40.08 mills in FY 1993-94 to 1.68 mills in FY 2006-07.

- In 2007, the General Assembly enacted S.B. 07-199 (School Finance). That bill froze mill levies for all districts that had received voter approval to retain revenues above the TABOR limit and set a maximum total program mill levy of 27.0 mills. Even with the “freeze” in place, mill levies

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7 Again, see the FY 2017-18 JBC Staff Briefing Document for the Department of Education for a detailed discussion of the property value dynamics that drove mill levy changes.
continued to decrease under two scenarios: 1) for the four districts that have not obtained voter approval to retain revenues above the TABOR limit; and 2) for certain districts that were fully locally funded and had to reduce their mill levies to avoid collecting revenues over and above their total program amount.

- Although 174 of Colorado’s 178 school districts have obtained voter approval to retain revenues in excess of the TABOR caps, by FY 2007-08, local total program mill levies already ranged from 1.68 mills in Primero to the statutory maximum of 27.0 mills established in S.B. 07-199.

Although the actions of the General Assembly in 2007 have largely halted further divergence in mill levies since FY 2007-08, the disparities were already significant and locked in place. The reduced mill levies often require increases in the state share of total program to offset the loss of local revenue, placing additional pressure on the state budget (as illustrated in the following example from the Primero School District). With a mill levy set at 1.68 mills, the State is covering more than 90 percent of Primero’s total program funding in FY 2018-19 (after the application of the budget stabilization factor). Staff notes that the state subsidy would be even larger without the reduction for the budget stabilization factor.

Based on current estimates, Primero could fully fund total program in FY 2018-19 at 24.89 mills. That would represent an increase of 23.2 mills above its current rate but is still 3.8 mills below the rate paid in 39 school districts where taxpayers are paying the maximum of 27.0 mills. Instead, taxpayers statewide are subsidizing the low mill levies in Primero and other districts with State funds originally intended to equalize differences in property value.

With the lowest total program mill levy in the State, Primero is the most extreme example of disparities in mill levies (and differences in the tax rates paid to support school finance). However, the same dynamic has played out to varying degrees throughout the state. For example, total program mill levies

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8 The four remaining districts are: Cherry Creek; El Paso – Colorado Springs District 11; El Paso – Harrison; and Steamboat.
in the seven districts highlighted in this issue brief range from 2.231 mills in Garfield 16 to 27.0 mills in Canon City and Pueblo (see following graph). The map following the graph shows current total program mill levies statewide.
Budgetary Impact of Mill Levy Disparities

The variation in mill levies directly impacts the state budget because the State backfills (or subsidizes) districts’ reduced mill levies. Staff offers three illustrative/benchmark examples of the impact of implementing a uniform mill levy in alignment with the staff recommendation (with districts that are fully funded at a lower mill levy assessing the reduced mil levy): (1) 27.0 mills (the current statutory ceiling); (2) 22.6 mills (revenue neutral); and (3) 29.8 mills (sufficient to eliminate the budget stabilization factor). These are simply illustrative examples; the General Assembly could select a mill based on a variety of priorities (targeting a specific revenue amount, targeting a specific local/state division of funding, etc.).

**27.0 Mills - Current Statutory Ceiling**

A total of 39 school districts are levying 27.0 mills for total program in FY 2018-19. Based on current estimates, implementing a “uniform” mill levy at that level would generate $412.5 million in additional local revenues in FY 2018-19. In other words, holding the state share constant under that scenario would reduce the budget stabilization factor by $412.5 million. As an alternative lens, at any given level of the budget stabilization factor, the state is paying $412.5 million in FY 2018-19 to subsidize inequitable mill levies.

- To put the $412.5 million in perspective, the state is currently spending more to subsidize reduced mill levies in FY 2018-19 than the school finance formula (without the budget stabilization factor) would direct to either the size factor ($328.7 million) or funding for at-risk students ($354.3 million). Currently, after the application of the budget stabilization factor, the formula is directing an estimated $277.7 million to the size factor and $299.3 million to at-risk students.

As shown in the following graph, under this scenario the local share would increase for districts that are currently below 27.0 mills, making state revenues available to either reduce the budget stabilization factor or support other priorities. Districts that are already at 27.0 mills would not see an increase in local share but would receive additional state share made available through the mill levy change. Based on current estimates 24 districts would fully fund at less than 27.0 mills.

![Change in Mill Levy and Change in Local Share ($ in Millions)](image_url)
The following graph shows the change in local share per pupil, indicating the current level of state subsidy on a per pupil basis. As shown in the graph, $23.6 million associated with Denver equates to $268 per pupil while the $9.4 million in Garfield 16 equates to a state subsidy of $8,287 per pupil.

Adding additional local revenues “frees up” state funds that are currently subsidizing districts with low mill levies and instead distributes some of those funds to districts that are already paying higher mill levies. The following chart shows the change in local share and the associated change in total program funding (total program after the application of the budget stabilization factor) for each of the seven districts. As shown in the chart, districts that already have high mill levies see increases in total program that outweigh the increase in local share. The two districts that already levy 27.0 mills (Canon City and Pueblo) see increases in total program with no increase in property taxes.
The following chart shows the same changes (local share and total program) on a per pupil basis.

**22.6 MILL – REVENUE NEUTRAL**

The current appropriation for FY 2018-19 anticipates a total of $2.4 billion in total program property tax collections statewide. Based on those estimates, implementing a “uniform” mill levy of approximately 22.6 mills would raise the same amount of property tax revenue statewide but would do so on a more equitable basis. Tax rates and local revenues would increase in districts currently levying less than 22.6 mills (103 districts) but taxpayers in districts currently levying more than 22.6 mills (75 districts) would actually experience a decrease in property taxes that would offset the increase from low-mill-levy districts (see following graph). Based on current estimates, a total of 18 school districts would fully fund at less than 22.6 mills in FY 2018-19.
29.8 MILLS – ELIMINATE THE BUDGET STABILIZATION FACTOR

Based on current estimates, setting the “uniform” mill levy at approximately 29.8 mills would increase local revenues by $672.4 million, enough to eliminate the budget stabilization factor entirely with local revenue. Staff notes that eliminating the budget stabilization factor with local revenues would both fully fund the total program formula and ensure that state funds go to districts with lower local revenue capacity. However, this scenario does require a property tax increase for every school district that is not entirely locally funded. While every district would see some level of increase based on current estimates for FY 2018-19, a total of 25 districts would fully fund at less than 29.8 mills. The following graph shows the change in the total program mill levy and the change in local share funding for each illustrative school district.

Every district that is currently absorbing a reduction from the budget stabilization factor would see an increase in total program funding under this scenario (see following graph). For low mill levy districts that become fully locally funded (e.g., Clear Creek and Garfield 16), the increase in local revenues outweighs the total increase in funding – but those districts still see an increase in total program funding above current levels. For districts already levying higher mill levies, the increase in total program is larger than the increase in local funding because more of the existing state funding flows to those districts.
Finally, staff notes that looking at the changes in total revenues masks significant changes in per pupil revenues, particularly for the smaller districts. While Denver’s total program funding increases by $70.3 million under this scenario, that equates to an increase of $799 per pupil, with $787 of that increase coming from local revenues. In contrast, reflecting the higher current mill levies in Canon City and Pueblo City, the increases in total program for those districts significantly outweigh the increase in local share simply because of the additional state funding flowing to those districts.
IMpact on Taxpayer Equity

Beyond the impact on the state budget, staff believes that the existing revenue structure raises very serious questions about the taxpayer equity of the State’s school finance system. The current system, with low mill levies subsidized by the State, results in an uneven burden for identical taxpayers (those with identical residential and/or non-residential properties).

- According to the U.S. Census Bureau, the statewide median home value in Colorado was $348,900 in 2017.
- With a total program mill levy set at 2.2 mills, a residential property owner in Garfield 16 would pay $56 in total program property taxes on that home in FY 2018-19. The State covers the shortfall created by this mill levy, paying 86.1 percent of the district’s total program funding in FY 2018-19.
- With mill levies set at 27.0 mills, the owner of the same home in either Canon City or Pueblo would pay $678 in FY 2018-19, or more than 12 times the payment in Garfield 16 (see graph below).

Given that non-residential property has a 29.0 percent assessment rate (compared to 7.2 percent for residential property in FY 2018-19 under current law), the magnitude of the difference is even larger for non-residential property owners (see following graph).
The current system also creates significant differences within individual counties. Staff provides two examples below, using counties with particularly large numbers of school districts: El Paso County (with 14 school districts) and Weld County (with 12 school districts). Again using the 2017 statewide median home value of $348,900, the following graphs show the total program property tax obligation in each school district for these counties.

While Weld County presents some complications because several districts are sometimes able to fully fund locally (depending largely on oil prices), the differences in taxpayer impact are still striking.
POINTS TO CONSIDER

TAXPAYER EQUITY – IS THE SYSTEM FAIR AND EQUITABLE TO TAXPAYERS?

Given the points and data discussed above, staff has three related concerns about the equity of the current system for Colorado taxpayers.

- First, the disparities in total program mill levies (ranging from 1.68 to 27.0 mills) inherently raise concerns about equitable treatment of taxpayers because of the variation in local “effort” and state subsidization of the reduced tax rates. The current system has wide variation in mill levies among districts that are still receiving significant state funding. As shown in the examples above, identical taxpayers in pay markedly different tax rates, with state funding subsidizing low local tax rates.

- Second, the current mill levies tend to be regressive, as districts with high levels of assessed value per pupil tend to have the lowest mill levies and the districts with the lowest assessed values per pupil generally having the highest rates. While the trend toward high property values and low mill levies is clear, staff also notes that districts with similar assessed values per pupil can have very different mill levies, based on whether the increase in assessed value occurred prior to the enactment of the mill levy freeze in FY 2007-08.

- Finally, and related to the other two concerns, taxpayers statewide are inherently subsidizing the inequitable mill levies through income and sales tax paid into the General Fund and the State Education Fund that is then distributed to districts with low mill levies. For example, General Fund dollars paid by taxpayers in school districts paying 27.0 mills for total program are subsidizing low mill levies in other districts where property owners are paying a fraction of the rates paid in lower property value districts.

SCHOOL DISTRICT EQUITY – IS STATE FUNDING GOING TO DISTRICTS WITH THE GREATEST NEED?

The disparity in mill levies among districts that continue to receive significant state funding has consequences for school districts. Inequity between districts is especially striking in the context of a
limited state budget and the budget stabilization factor. If mill levies were more equitable (showing a consistent level of effort), then state funds would flow to districts based on local ability to cover total program with similar local effort rather than based on inequitable mill levies.

- For example, based on current assessed value estimates for FY 2018-19, setting a “uniform” mill levy of 27.0 mills (with districts that are fully locally funded at less than 27.0 mills assessing the levy necessary to locally fund) would raise approximately $412.5 million in additional local revenues in FY 2018-19. Holding total state funding constant under that scenario would reduce the budget stabilization factor by $412.5 million (61.3 percent of the current value of the budget stabilization factor) and direct those funds to districts based on differences in local property wealth rather than differences in tax rates.

- Also based on current estimates of assessed value and total program funding, setting a “uniform” mill levy of 29.8 mills would generate an additional $672.4 million, an amount sufficient to eliminate the budget stabilization factor in FY 2018-19. Again, state revenue would flow to districts based on the factors considered in the school finance formula and the gap created by equal local effort.

Finally, mill levy overrides present another layer of potential inequity. Districts with comparatively low mill levies may find it easier to pass mill levy overrides, providing additional local funding that is not considered in the total program calculations. Such districts simultaneously have low total program mill levies, receive significant state funding to backfill the low mill levies, and find it easier to pass overrides that can add another layer of potential inequity between districts.

It is important to note that the current system would provide little or no incentive for most districts to increase the total program mill levy (which is backfilled by the State and not locally controlled to begin with) and continues to incentivize overrides that will provide funds in addition to total program funding without any impact on the district’s state share. This incentive is particularly strong for the four remaining districts that have neither sought nor obtained voter approval to retain revenues in excess of the TABOR revenue cap and continue to receive override funds.

**STAFF CONCLUSIONS AND RECOMMENDATION**

Staff continues to believe that action is warranted to improve the equity of the school finance funding system in Colorado for both taxpayers and school districts. If the goal of the school finance formula is to equalize funding for school districts based on disparities in local funding capacity, then staff is at a loss to provide a policy rationale to support the current system which uses state funding to subsidize reduced levels of local effort in districts with comparatively high local capacity. Staff therefore recommends that Colorado return to a system requiring consistent local effort for school finance and equalizing school districts’ funding with state funds. Given that doing so would require increases in mill levies for some or all school districts (depending on the mill levy selected), the staff recommendation requires either voter approval or the statutory change addressed in the “Recommendation” section of this issue brief.

Through either a referred measure or the proposed statutory change, staff recommends that the General Assembly move forward to:

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9 As discussed above, staff notes that the School Finance Act of 1988 responded to very similar concerns about taxpayer equity with the implementation of a consistent mill levy. For additional detail on the School Finance Act of 1988 and the reasons for the consistent mill levy in that Act, see the December 1990 Colorado Commission on School Finance report at: [http://hermes.cde.state.co.us/drupal/islandora/object/co%3A2656](http://hermes.cde.state.co.us/drupal/islandora/object/co%3A2656)
• Restore a consistent statewide mill levy. Districts that are fully locally funded at less than the statewide mill levy would levy the amount necessary to fully fund total program.

• Require districts that are fully locally funded (with mill levies below the statewide level) to “float” their mill levies annually to continue to fully fund total program if the necessary mill levy is below the statewide level. Mill levies below the statewide level would not be locked at a specific level requiring state funding to backfill shortfalls resulting from the reduced mill levies. Rather, state funding would fill the gap between the local revenues raised by the statewide mill levy and each district’s total program funding.

• Phase in any necessary increases in the mill levy over a period of time and/or cap the amount that any individual mill levy could increase in a given year.

Staff is **not** recommending a specific level for the mill levy or a specific timeline for implementation. The appropriate level and the timeline to phase in the mill levy are both policy decisions that depend entirely on the General Assembly’s goals (raising additional revenues vs. simply improving equity for the State’s taxpayers without raising additional revenues).

Staff is aware of ongoing discussions regarding changes to the factors and/or weights considered in the school finance formula. Staff asserts that the proposed changes in revenues will improve the equity of the school finance system regardless of the final outcomes of discussions regarding the formula itself.
JBC Staff FY 2019-20 Briefing
Department of Education

Presented by:
Craig Harper, JBC Staff
December 4, 2018
FY 2018-19 Residential Property Tax Payment on Statewide Median Value Home vs. State Share of Total Program

- Adams County 14 (24.7 mills): Residential Tax Payment $620, State Share 70.3%
- Clear Creek: Residential Tax Payment $314, State Share 17.1%
- Denver (25.5 mills): Residential Tax Payment $642, State Share 41.1%
- Fremont - Canon City (27.0 mills): Residential Tax Payment $678, State Share 86.1%
- Garfield 16 (26.3 mills): Residential Tax Payment $56, State Share 24.7%
- Jefferson: Residential Tax Payment $659, State Share 57.7%
- Pueblo City (27.0 mills): Residential Tax Payment $678, State Share 78.1%

Total Residential Tax Payment: $348,900 Home
State Share of Total Program: 70.3%
STATUTORY END GOAL: SCHOOL FINANCE FORMULA

Statutory Total Program Goal: $7.8 B in FY 2018-19
HOW WE GET THERE: LOCAL SHARE – THE FOUNDATION

Local Share: $2.5 B

Statutory Total Program Goal: $7.8 B
HOW WE GET THERE: STATE SHARE – FILLS THE GAP

Pre-BSF State Share: $5.2 B

BSF: $0.7 B

Actual State Share: $4.5 B

Statutory State Share Goal: $5.2 B
How We Get There: Total Program Funding

- Local Share: $2.5 B
- Actual State Share: $4.5 B
- BSF: $0.7 B

Statutory Total Program Goal: $7.8 B

Actual Funding: $7.1 B
CURRENT FY 2018-19 TOTAL PROGRAM PER PUPIL FUNDING

Adams County 14 (7,134.9 pupils) $0
Clear Creek (775.6 pupils) $2,000
Denver (87,980.5 pupils) $4,000
Fremont - Canon City (3,662.8 pupils) $6,000
Garfield 16 (1,130.2 pupils) $8,000
Jefferson (80,984.8 pupils) $10,000
Pueblo City (16,545.8 pupils) $12,000

C Local S State BSF

Local
State
BSF
STATEWIDE LOCAL SHARE: HOW WE BUILD THE FOUNDATION

Property Tax: $2.4 B
92.8%

Specific Ownership Tax: $0.2 B
7.2%

Local Share: $2.5 B
LOCAL SHARE: PROPERTY TAX

(Whether you are a Taxpayer or a District)

Assessed Property Value

Mill Levy (Tax Rate)
FY 2018-19 Assessed Value Per Pupil

Map prepared by Legislative Council Staff.
Map Date: November 29, 2018

Map showing assessed value per pupil with color-coded ranges.
Local Share: Disparities in Capacity

FY 2018-19 Mill Levies Required to Fully Fund Total Program

- Adams County 14 (7,134.9 pupils)
- Clear Creek (775.6 pupils)
- Denver (87,980.5 pupils)
- Fremont - Canon City (3,662.8 pupils)
- Garfield 16 (1,130.2 pupils)
- Jefferson (80,984.8 pupils)
- Pueblo City (16,545.8 pupils)

Bar graph showing mill levies required to fully fund the total program for each area, with Adams County requiring the highest at 125.9, followed by Clear Creek at 71.2, and others at varying levels.
Primero School District Total Program Mill Levy and Assessed Valuation

Mill Levy

Assessed Valuation

1995-96
1997-98
1999-00
2001-02
2003-04
2005-06
2007-08
2009-10
2011-12
2013-14
2015-16
2017-18

Mill Levy

Assessed Valuation ($ millions)
PRIMERO STATE SHARE OF TOTAL PROGRAM AND MILL LEVY
FY 2018-19 TOTAL PROGRAM MILL LEVIES

Map prepared by Legislative Council Staff.
Change in Mill Levy and Change in Local Share ($ in millions)
"Uniform" 27.0 Mill Scenario

- Adams County: 2.3 (14,7134.9 pupils) - Change in Mill Levy: $1.8
- Clear Creek: 4.2 (775.6 pupils) - Change in Mill Levy: $1.8
- Denver: 1.5 (87,980.5 pupils) - Change in Mill Levy: $0.0
- Fremont - Canon City: 0.0 (3,662.8 pupils) - Change in Local Share: $0.0
- Garfield 16: 16.5 (1,130.2 pupils) - Change in Local Share: $9.4
- Jefferson: 0.7 (80,984.8 pupils) - Change in Local Share: $7.2
- Pueblo City: 0.0 (16,545.8 pupils) - Change in Local Share: $0.0

Change in Mill Levy
Change in Local Share with 27.0 Scenario ($ in Millions)
CHANGE IN LOCAL SHARE PER PUPIL - 27.0 MILL SCENARIO

- Adams County 14 (7,134.9 pupils): $245
- Clear Creek (775.6 pupils): $2,338
- Denver (87,980.5 pupils): $268
- Fremont - Canon City (3,662.8 pupils): $0
- Garfield 16 (1,130.2 pupils): $8,287
- Jefferson (80,984.8 pupils): $89
- Pueblo City (16,545.8 pupils): $0
## Change in Local Share and Total Program Per Pupil

### 27.0 Mills Scenario

<table>
<thead>
<tr>
<th>Location</th>
<th>Change in Local Share Per Pupil</th>
<th>Change in Total Program Per Pupil</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adams County 14</td>
<td>$245</td>
<td>$8,287</td>
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<tr>
<td>Clear Creek</td>
<td>$541</td>
<td>$822</td>
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<tr>
<td>Denver</td>
<td>$827</td>
<td>$451</td>
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<td>Fremont - Canon City</td>
<td>$268</td>
<td>$474</td>
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<tr>
<td>Garfield 16</td>
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<td>$0</td>
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<tr>
<td>Jefferson</td>
<td>$478</td>
<td>$0</td>
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<tr>
<td>Pueblo City</td>
<td>$439</td>
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</table>

### Notes

- The chart illustrates the change in local share and total program per pupil in various counties under a 27.0 mills scenario.
- Adams County 14 experiences the highest increase in local share per pupil at $245.
- Garfield 16 sees the largest change in total program per pupil at $8,287.
- Some locations show no change, indicated by the $0 value.
CHANGE IN MILL LEVY AND LOCAL SHARE - "REVENUE NEUTRAL"
22.6 MILL SCENARIO ($ IN MILLIONS)

<table>
<thead>
<tr>
<th>County</th>
<th>Change in Mill Levy</th>
<th>Change in Local Share ($ millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adams</td>
<td>(2.1)</td>
<td>(1.6)</td>
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<tr>
<td>Clear Creek</td>
<td>(2.9)</td>
<td>(1.0)</td>
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<tr>
<td>Denver</td>
<td>(4.4)</td>
<td>$9.4</td>
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<tr>
<td>Fremont - Canon City</td>
<td>(2.9)</td>
<td>$16.5</td>
</tr>
<tr>
<td>Garfield 16</td>
<td>(3.7)</td>
<td></td>
</tr>
<tr>
<td>Jefferson</td>
<td>(4.4)</td>
<td>($4.5)</td>
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<tr>
<td>Pueblo City</td>
<td></td>
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</table>

Adams County 14 (7,134.9 pupils)
Clear Creek (775.6 pupils)
Denver (87,980.5 pupils)
Fremont - Canon City (3,662.8 pupils)
Garfield 16 (1,130.2 pupils)
Jefferson (80,984.8 pupils)
Pueblo City (16,545.8 pupils)

Change in Mill Levy
Change in Local Share ($ millions)
CHANGE IN TOTAL PROGRAM MILL LEVY AND CHANGE IN LOCAL SHARE 29.8 MILLS - ELIMINATE BUDGET STABILIZATION FACTOR

<table>
<thead>
<tr>
<th>County</th>
<th>Change in Mill Levy</th>
<th>Change in Local Share ($ in Millions)</th>
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<tbody>
<tr>
<td>Adams County 14</td>
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<td>4.2</td>
<td>$1.8</td>
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<td>Denver</td>
<td>4.3</td>
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<td>Fremont - Canon City</td>
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<td>Garfield 16</td>
<td>16.5</td>
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<td>Jefferson</td>
<td>3.6</td>
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<tr>
<td>Pueblo City</td>
<td>2.8</td>
<td>$2.9</td>
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Change in Mill Levy | Change in Local Share ($ in Millions)
<table>
<thead>
<tr>
<th>Location</th>
<th>Change in Local Share ($ in Millions)</th>
<th>Change in Total Program ($ in Millions)</th>
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</thead>
<tbody>
<tr>
<td>Adams County 14</td>
<td>$3.9</td>
<td>$69.3</td>
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<td>Clear Creek</td>
<td>$1.8</td>
<td>$70.3</td>
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<td>Denver</td>
<td>$0.6</td>
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<td>Garfield 16</td>
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<tr>
<td>Pueblo City</td>
<td>$2.9</td>
<td>$13.1</td>
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**Change in Local Share and Total Program**

($ in Millions)

29.8 mills - Eliminate Budget Stabilization Factor
Change in Local Share and Total Program Per Pupil
29.8 Mills - Eliminate Budget Stabilization Factor

<table>
<thead>
<tr>
<th>County</th>
<th>Change in Local Share Per Pupil</th>
<th>Change in Total Program Per Pupil</th>
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</thead>
<tbody>
<tr>
<td>Adams County 14</td>
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<td>$833</td>
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<td>Fremont - Canon City</td>
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<td>$787</td>
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<td>Garfield 16</td>
<td>$799</td>
<td>$799</td>
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<td>Jefferson</td>
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<td>$184</td>
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City
FY 2018-19 Residential Property Tax Payment on Statewide Median Value Home vs. State Share of Total Program

<table>
<thead>
<tr>
<th>County</th>
<th>Residential Tax Payment</th>
<th>Home State Share of Total Program (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adams County 14 (24.7 mills)</td>
<td>$620</td>
<td>70.3%</td>
</tr>
<tr>
<td>Clear Creek (12.5 mills)</td>
<td>$314</td>
<td>17.1%</td>
</tr>
<tr>
<td>Denver (25.5 mills)</td>
<td>$642</td>
<td>41.1%</td>
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<tr>
<td>Fremont - Canon City (27.0 mills)</td>
<td>$678</td>
<td>73.8%</td>
</tr>
<tr>
<td>Garfield 16 (2.2 mills)</td>
<td>$659</td>
<td>57.7%</td>
</tr>
<tr>
<td>Jefferson (26.3 mills)</td>
<td>$678</td>
<td>78.1%</td>
</tr>
<tr>
<td>Pueblo City (27.0 mills)</td>
<td>$678</td>
<td>78.1%</td>
</tr>
</tbody>
</table>

FY 2018-19 Residential Property Tax Payment $348,900 Home

State Share of Total Program (%)
Current Non-residential Total Program Tax Payment $348,900

Value

<table>
<thead>
<tr>
<th>County</th>
<th>Tax Rate</th>
<th>Tax Payment</th>
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<tbody>
<tr>
<td>Adams County 14</td>
<td>14 (24.7 mills)</td>
<td>$2,497.96</td>
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<tr>
<td>Clear Creek</td>
<td>12.5 mills</td>
<td>$1,262.84</td>
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<tr>
<td>Denver (25.5 mills)</td>
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<td>$2,584.26</td>
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<tr>
<td>Fremont - Canon City</td>
<td>27.0 mills</td>
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<td>Garfield 16</td>
<td>2.2 mills</td>
<td>$225.73</td>
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<td>Jefferson</td>
<td>26.3 mills</td>
<td>$2,656.20</td>
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<tr>
<td>Pueblo City</td>
<td>27.0 mills</td>
<td>$2,731.89</td>
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</tbody>
</table>
El Paso County: Median Home Value ($348,900) Property Tax Payment

Hansford: $212
Miami/Valle: $523
Calhan: $538
Peyton: $573
Ellicott: $678
Manitou: $678
Cheyenne Mtn: $678
Lewis Palmer: $582
Fountain: $494
Widefield: $550
Harrison: $411
Falcon: $614
Academy: $677
Colo. Spgs. 11: $567
WELD COUNTY: MEDIAN HOME VALUE ($348,900) PROPERTY TAX PAYMENT