

The Property Tax and the Funding of K-12 Public Education in Colorado

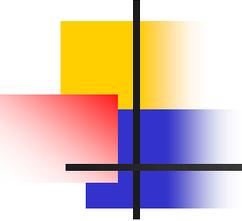
Presentation to the Joint Budget Committee and the Senate and
House Education Committees of the Colorado Legislature

Denver, Colorado, February 17, 2016

Andrew Reschovsky, Ph.D.

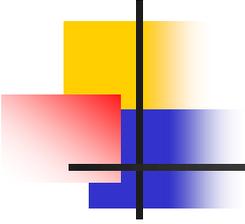
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Presentation Outline

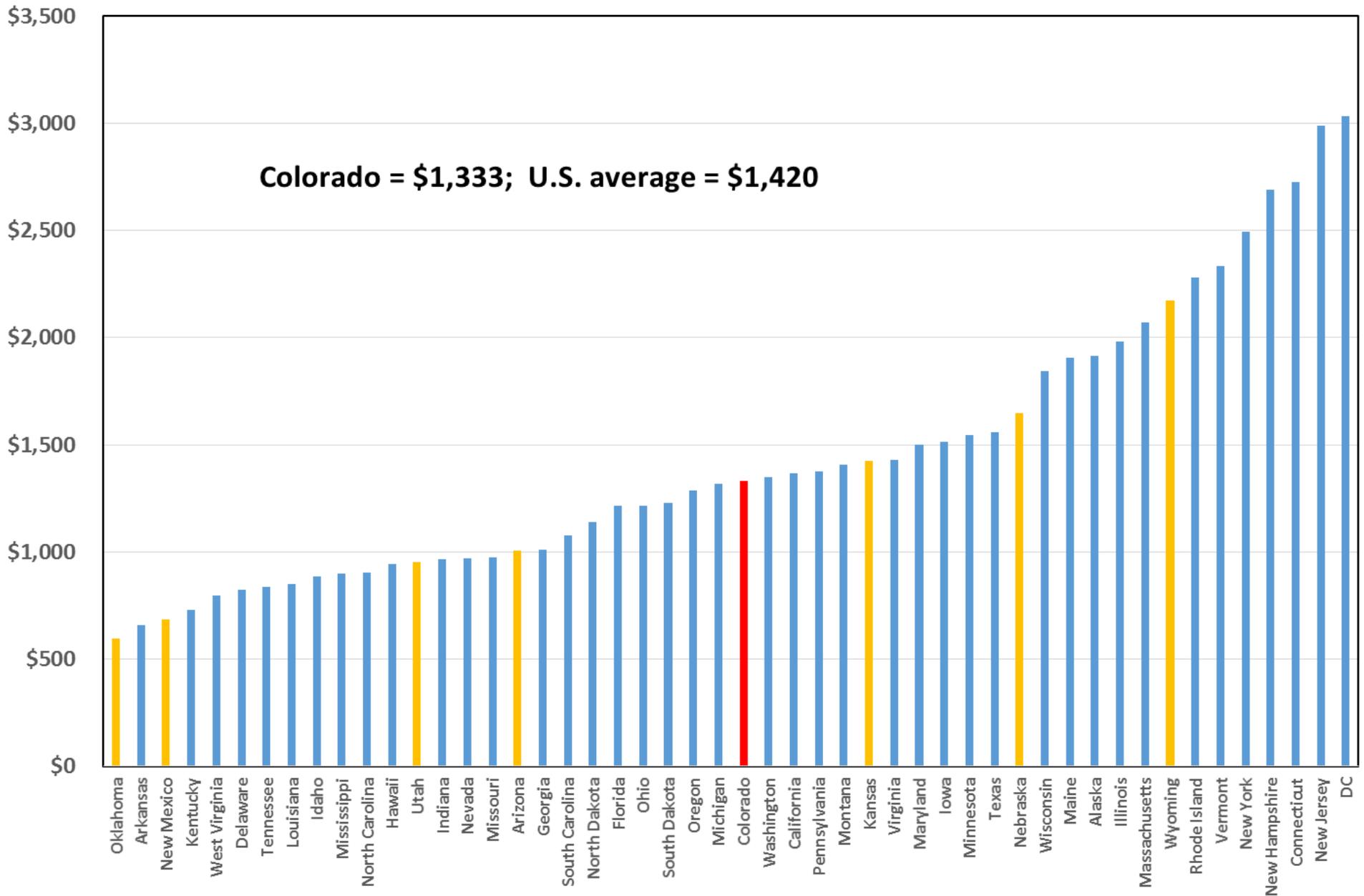
- Colorado property tax compared with the rest of the country
- The role of the property tax in funding K-12 education
- The goals of Colorado's school funding system—providing quality education and ensuring equity
- How Colorado's school aid formula works
- The role of the “negative factor”
- Do mill levy overrides support or distort the school funding system?



Property Taxation in Colorado

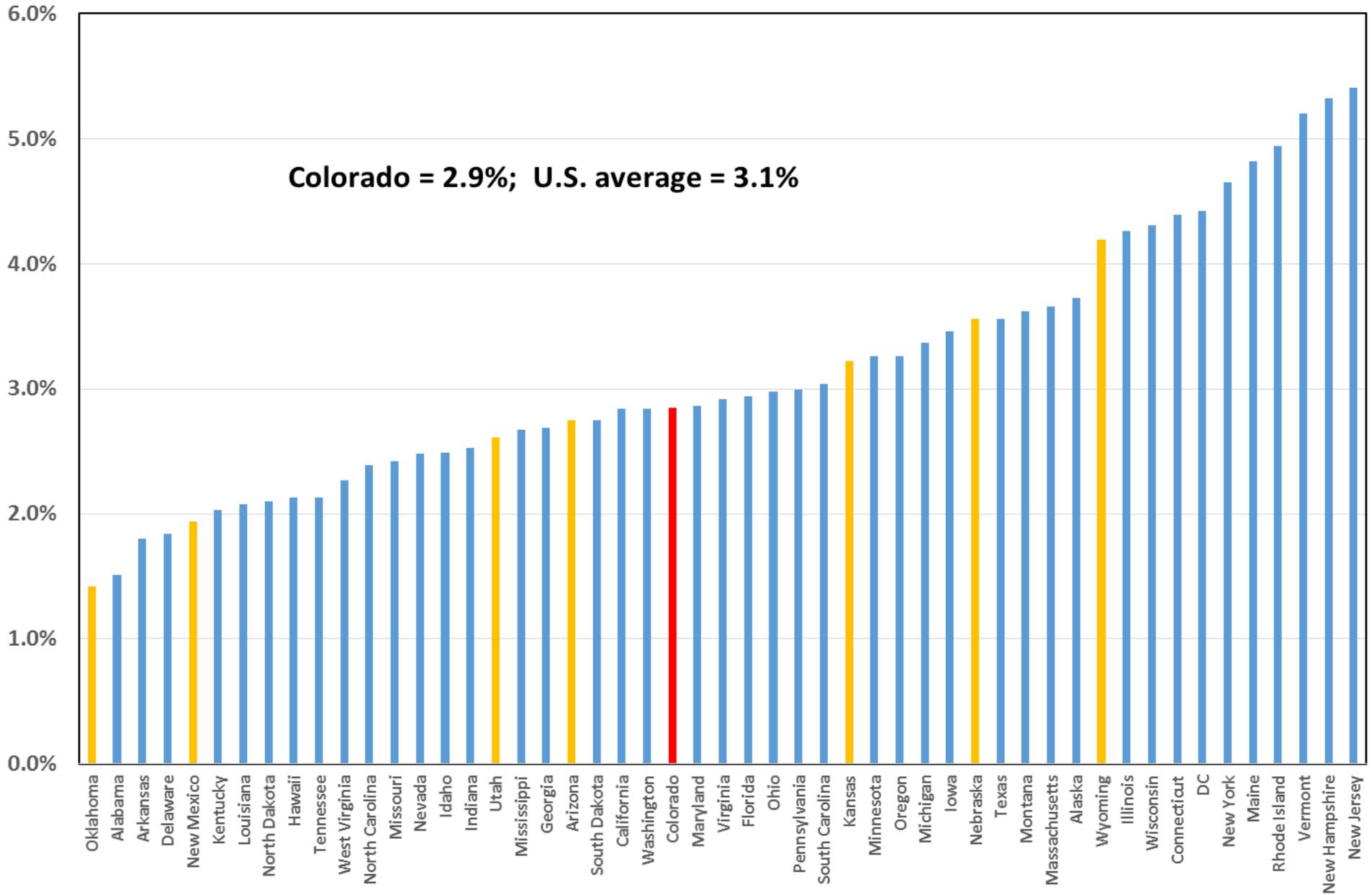
How Does Colorado Compare to Other States?

State and Local Property Tax Revenue Per Capita, 2013



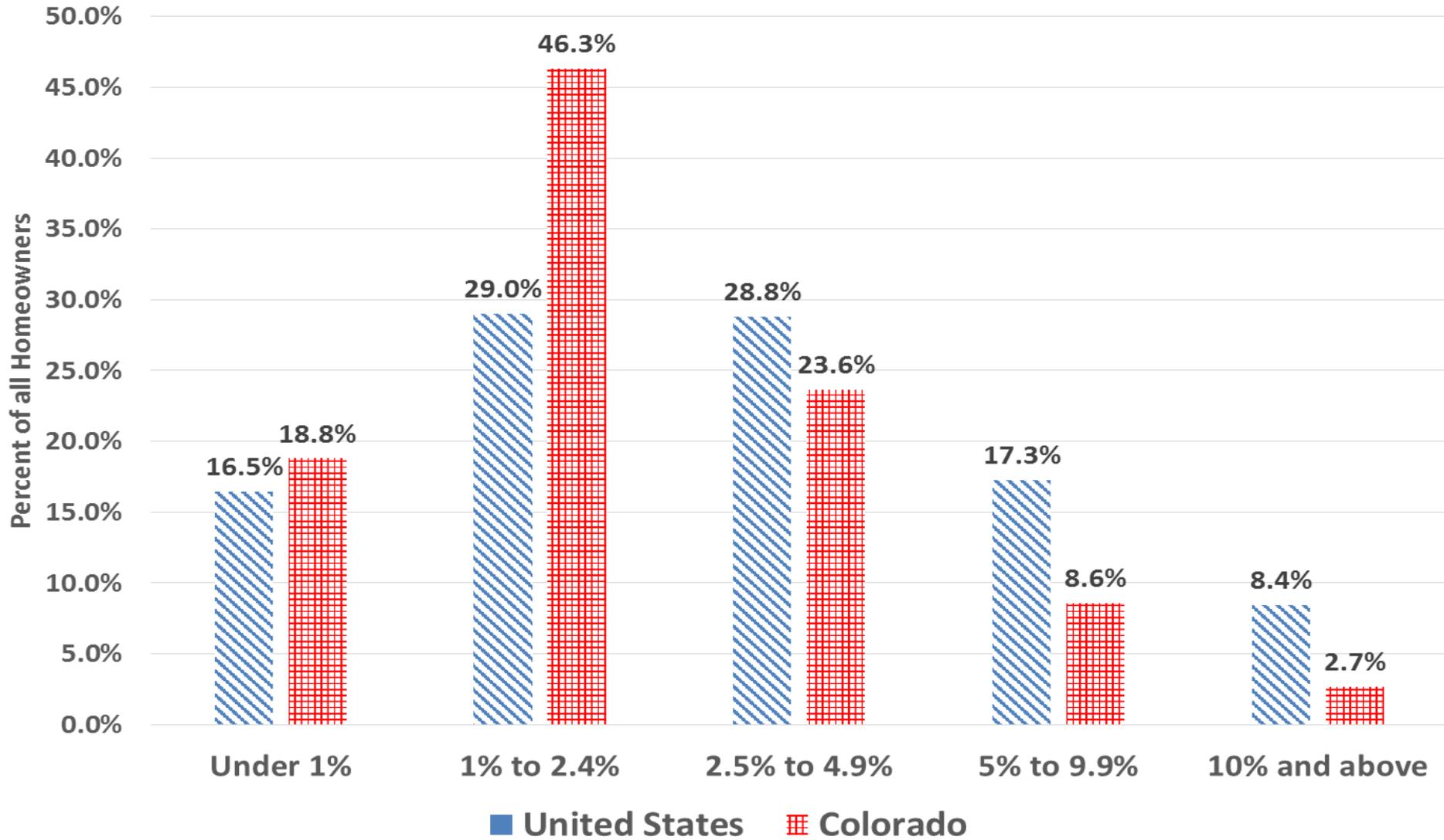
Source: U.S. Census Bureau, *State and Local Government Finances*, Fiscal Year 2013

State and Local Property Tax Revenue as a % of Income, 2013



Source: U.S. Census Bureau, *State and Local Government Finances*, Fiscal Year 2013

Homeowner Property Taxes as a Percent of Income, 2010 Colorado Compared to the United States

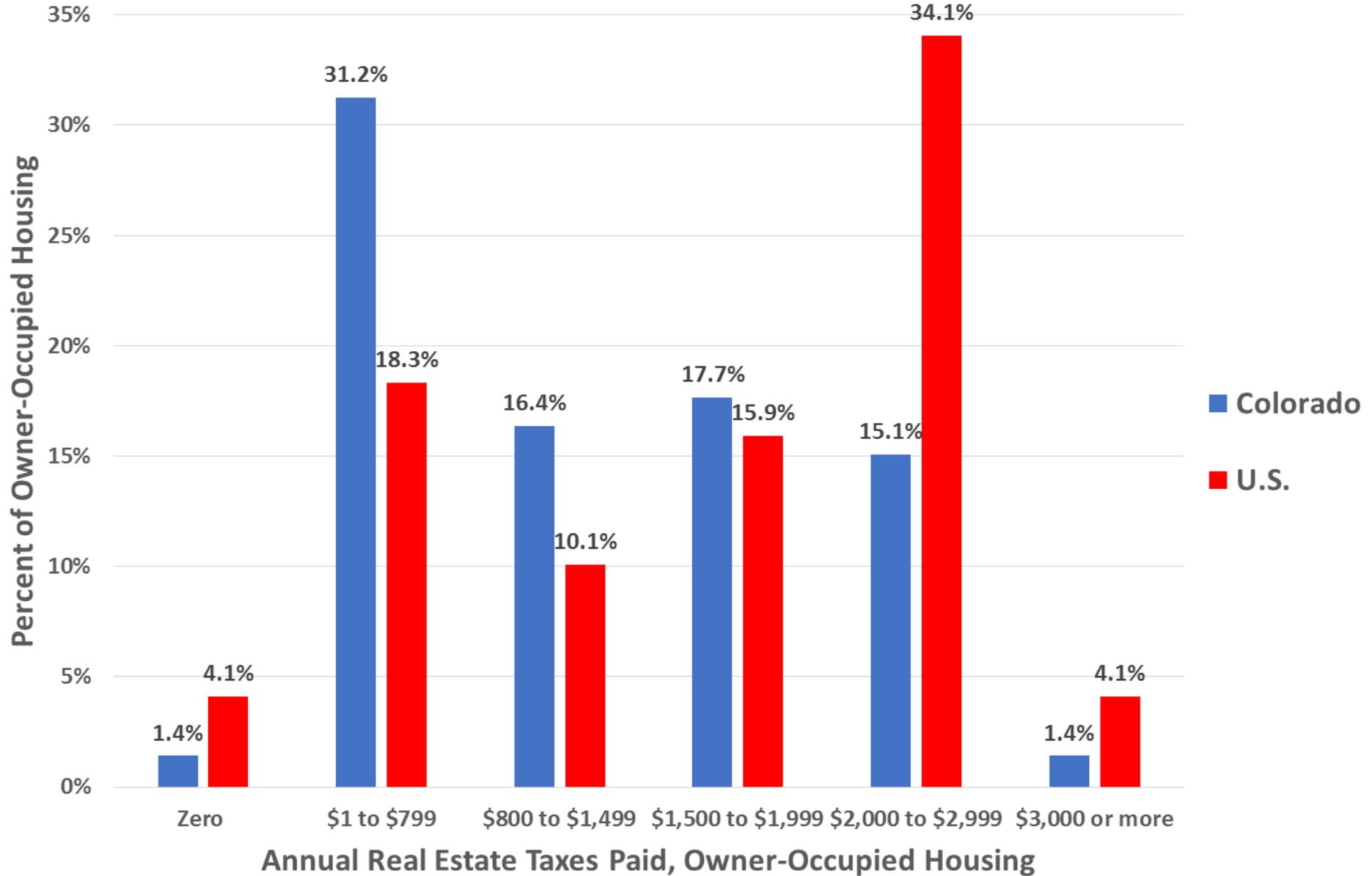


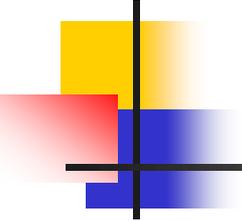
Average property tax burden: U.S. = 4.3%

Colorado = 2.7%

Source: U.S. Census Bureau, *American Community Survey, 2008-2012*

Real Estate Taxes Paid on Owner-Occupied Housing Colorado Compared to the United States





Why Are Homeowner Property Tax Burdens Relatively Low in Colorado?

- Gallagher Amendment

- As residential property values grow relative to non-residential values, the residential share of *assessed values* is forced down

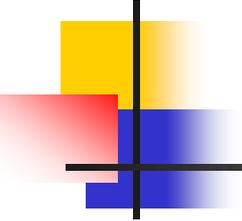
- **1984**

- Residential share of market value = 54.1%
- Residential share of assessed value = 44.1%

- **2014**

- Residential share of market value = 75.5%
- Residential share of assessed value = 42.6%

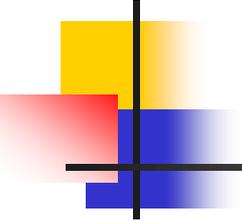
- Currently, residential property taxed at 7.96% of market value



Why Are Homeowner Property Tax Burdens Relatively Low in Colorado?

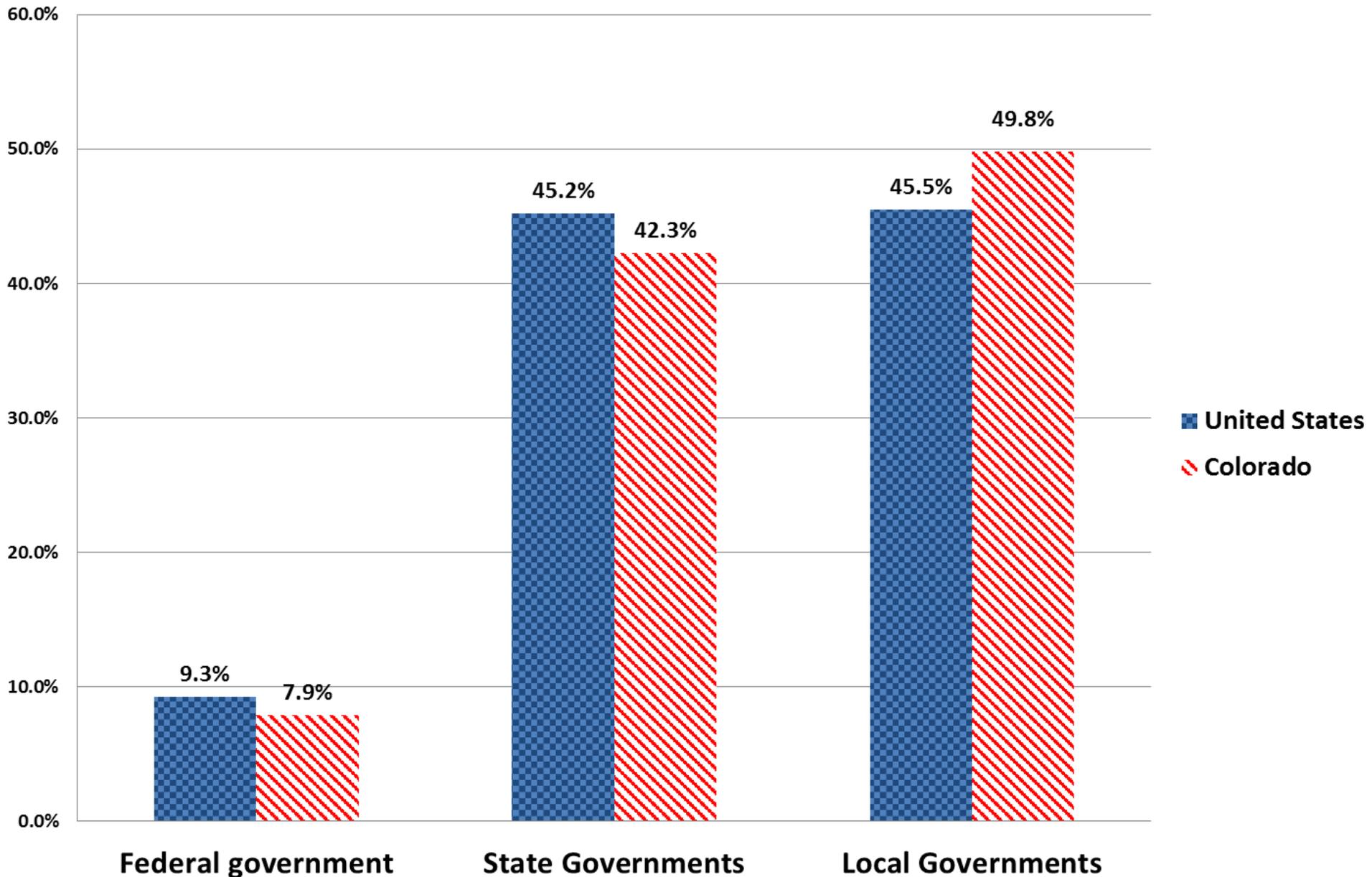
- TABOR

- Assessment ratios (assessed value/market value) can only be increased with statewide voter approval
- Property tax rate (mill levy) increases require voter approval
- Property tax revenue growth limited to rate of inflation and enrollment growth
- School spending growth limited to rate of inflation and enrollment growth



The Role of the Property Tax in Funding Public Education in Colorado

Revenue Sources for Public Education, 2012-13 Colorado Compared to the U.S.



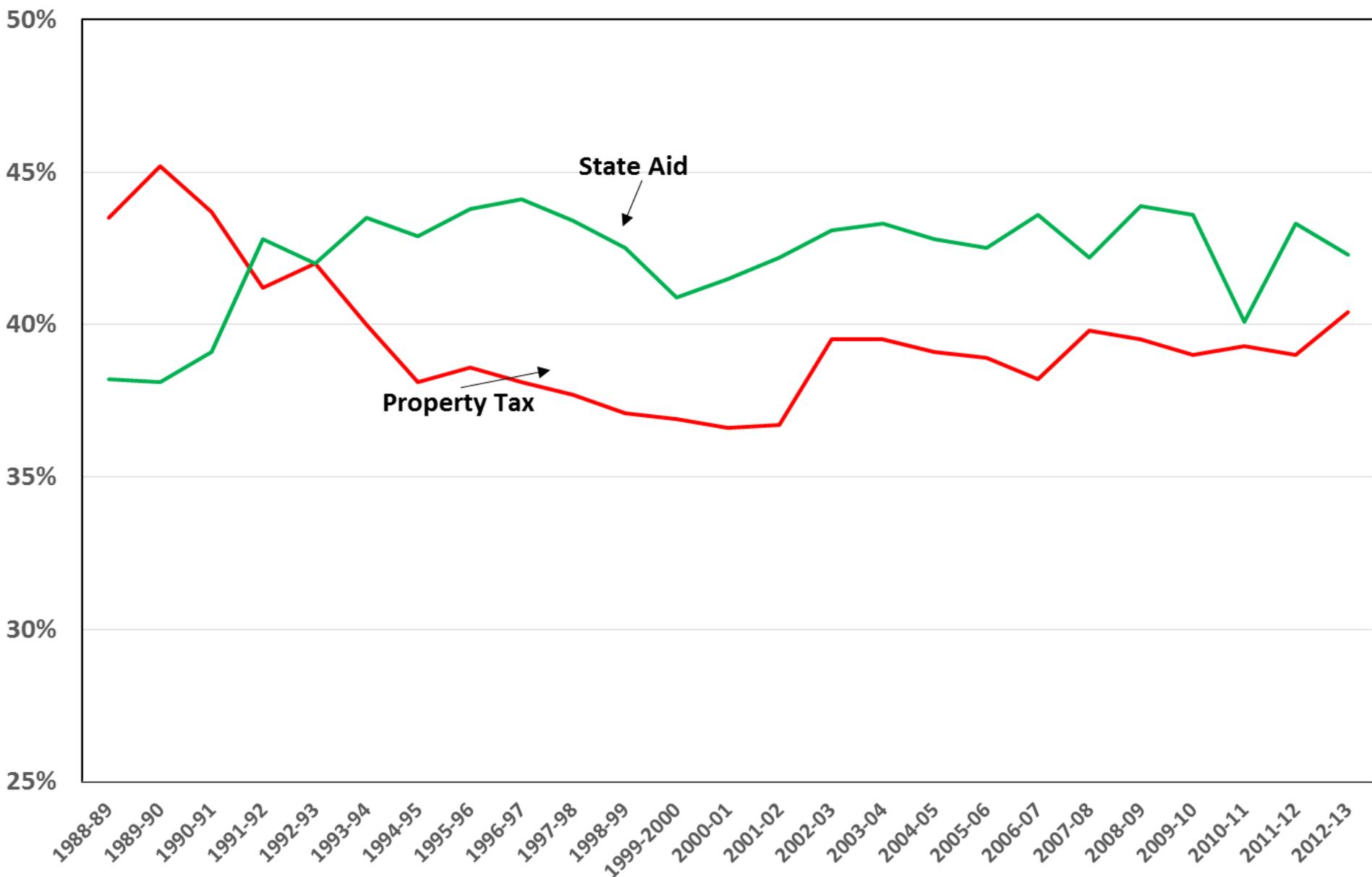
Source: National Center for Education Statistics, *National Public Education Financial Survey, Fiscal Year 2013.*

The Role of the Property Tax in Funding Public Education, 2012-13

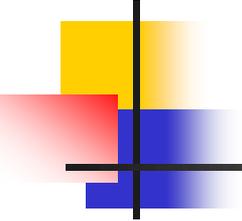
	Property Tax as a % of Local Revenue	Local Revenue as a % of Total Revenue	Local Property Tax as a % of Total Total Revenue
Illinois	88.0%	65.3%	57.5%
New Hampshire	95.6%	58.8%	56.2%
Connecticut	97.2%	56.2%	54.6%
Nebraska	88.5%	58.5%	51.8%
New Jersey	94.3%	54.8%	51.7%
Colorado	81.1% (24)	49.8% (16)	40.4% (16)
Average state	76.4%	43.7%	33.3%
Minnesota	64.3%	29.2%	18.8%
Louisiana	43.1%	41.6%	17.9%
Alabama	45.8%	33.4%	15.3%
New Mexico	80.9%	16.2%	13.1%
Alaska	57.9%	19.3%	11.2%

Source: Calculations using data from the National Center for Education Statistics, *National Public Education Financial Survey Data*, 2012-13. Available at nces.ed.gov/ccd/stfis.asp.

Share of Total Public School Revenue from Property Taxes and from State Aid Colorado, 1988-89 to 2012-13



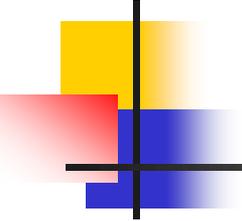
Source: National Center for Education Statistics, *National Public Education Financial Survey*, various years.



Current Spending Per Pupil, Fiscal Year 2013

Public Elementary and Secondary Education

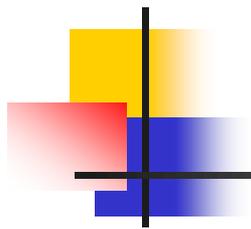
New York	\$19,818
Alaska	\$18,175
District of Columbia	\$17,953
Median state	\$10,490
Alabama	\$8,755
Colorado	\$8,647
South Dakota	\$8,470
Arizona	\$7,208
Idaho	\$6,791
Utah	\$6,555



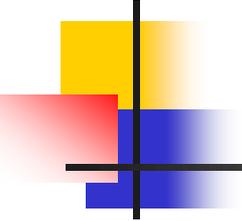
Student Performance in Colorado

- Student performance on National Assessment of Education Progress (NAEP) at or above national averages
- Percentage of students performing at or above “basic”

8 th grade math	73%
8 th grade reading	78%
- No significant improvement in NAEP scores over past 10 to 15 years

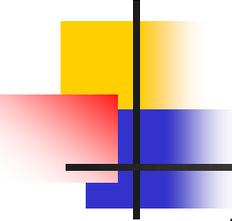


Goals of Colorado's School Finance System



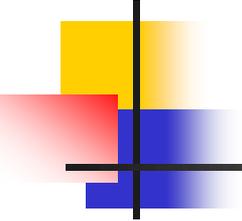
Providing Quality Education

- Assuring that each school district has sufficient funds to provide their pupils with a *quality* education
 - Defining what constitutes a quality education is the responsibility of the state Legislature



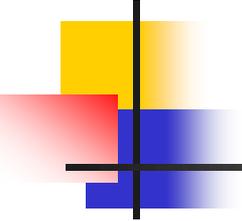
Providing Quality Education

- Determining the funding school districts need to provide their students with a quality education requires identifying various school district characteristics that influence the *costs* of education
 - Economists define **costs** as the minimum amount of money each district needs to provide a quality education
 - Costs are not the same as spending, if measured correctly they are determined by factors outside the control of local school districts
- If school districts receive sufficient funding to provide quality education, they can be held accountable for poor performance



Cost factors

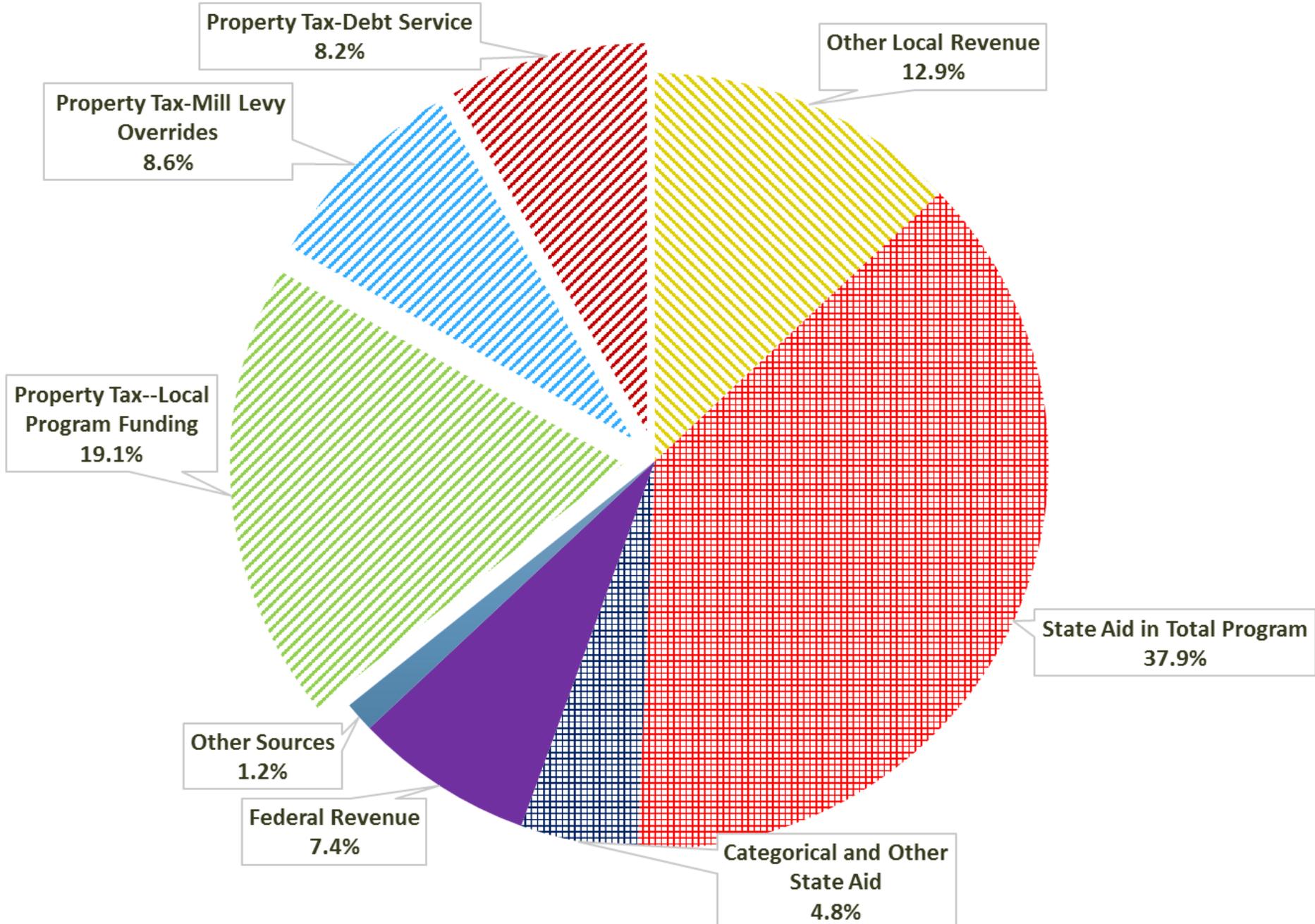
- Percent of pupils from poor families – “at risk”
- Percent of pupils with limited English proficiency
- Percent of pupils with “special education” needs
- Diseconomies of scale
- Area cost of living



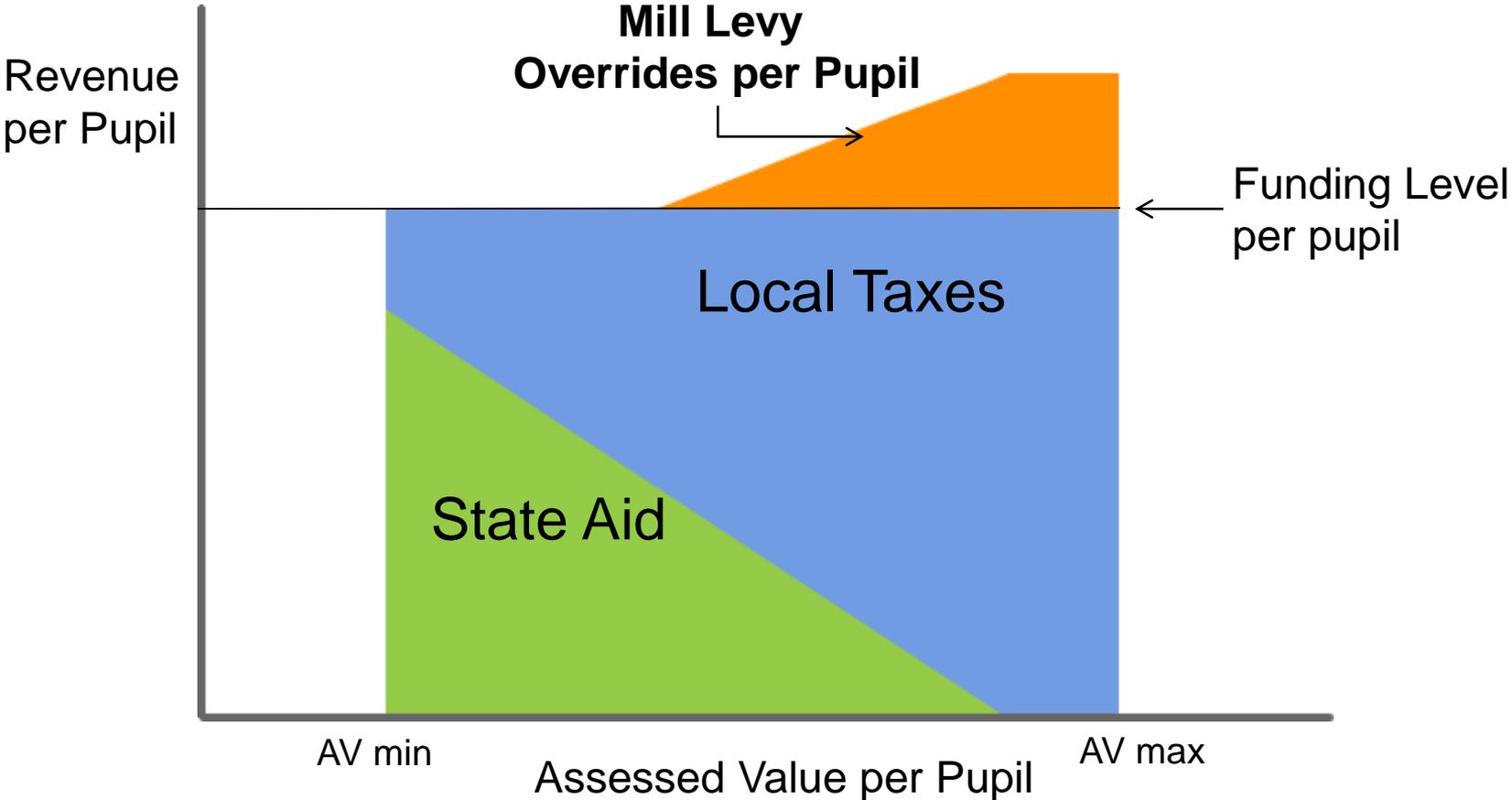
Equalization

- Multiple definitions
 - Equal spending per pupil, after adjusting for *cost* differences
 - *Taxpayer equity* – two districts with identical mill levies (rates) should be able to raise the same amount of money per pupil regardless of district per pupil assessed value

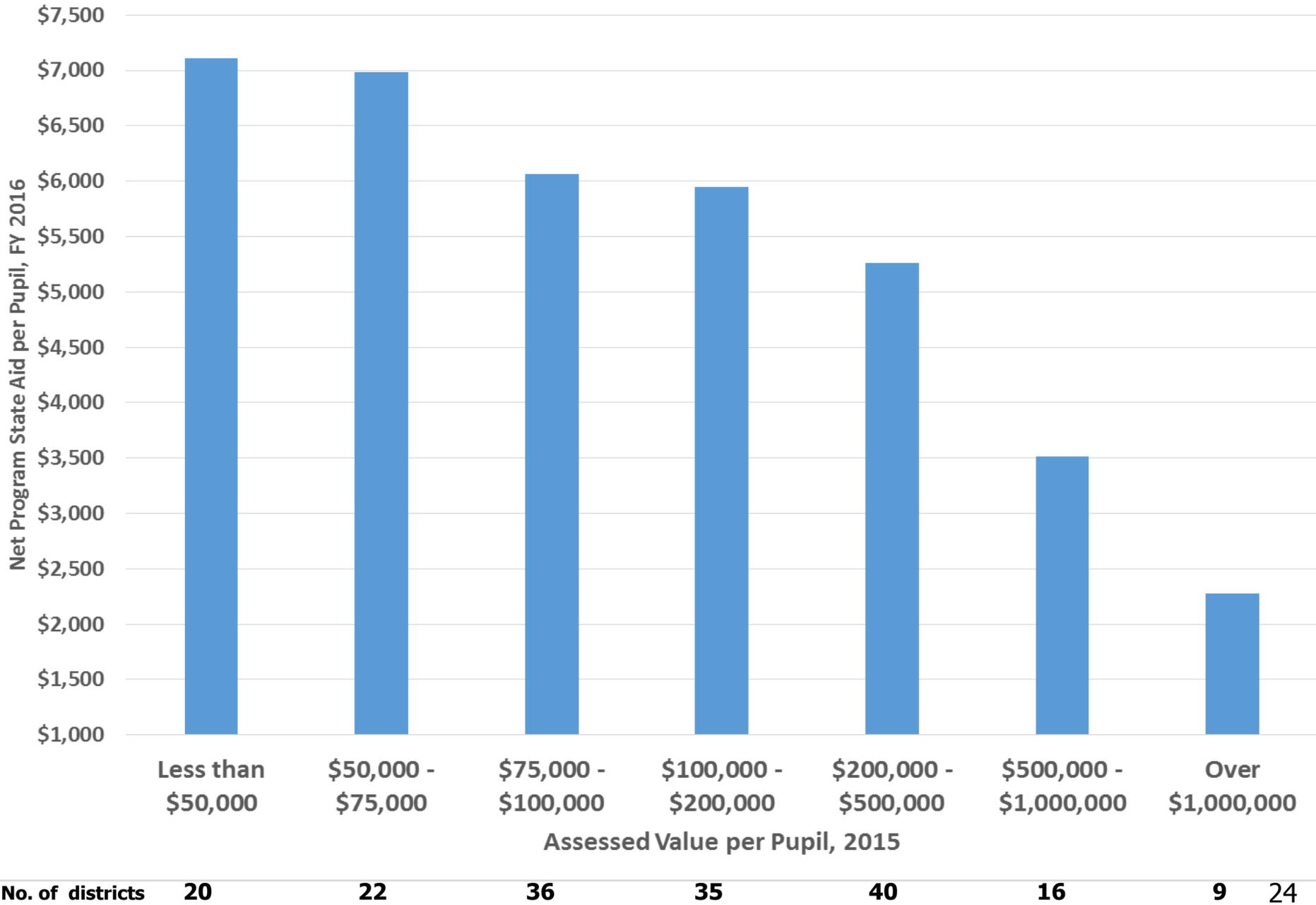
Colorado School District Revenue by Source, FY 2014



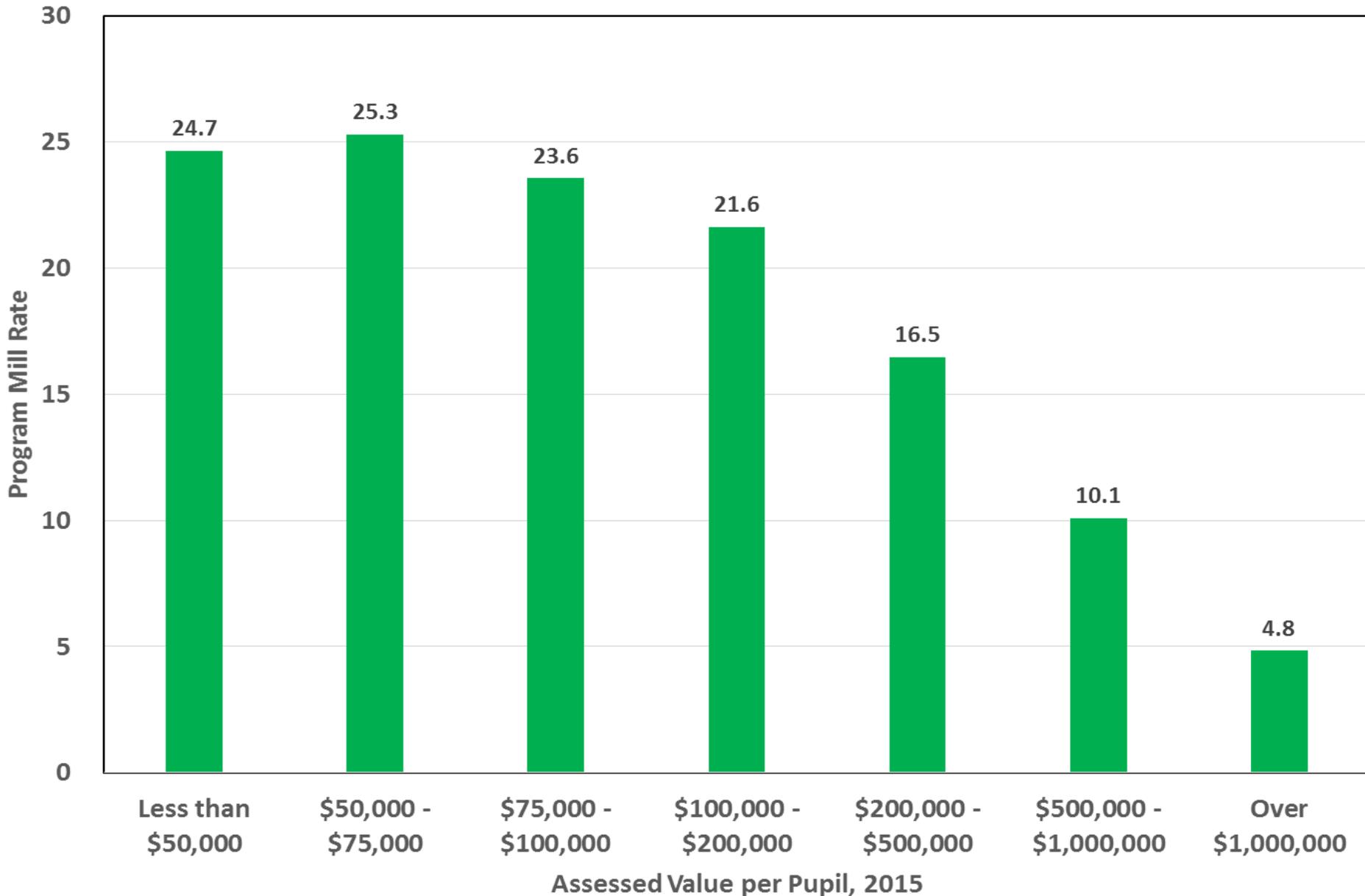
Colorado's School Aid Formula



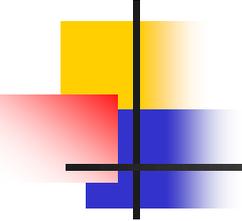
Net Program State Aid by Assessed Value per Pupil, FY 2016



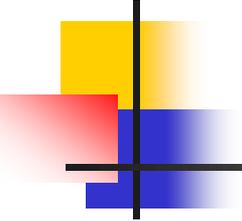
Program Mill Rates by Assessed Value per Pupil, FY 2016



Percent of pupils **15.3%** **15.4%** **45.3%** **17.1%** **4.8%** **1.5%** **0.6%**



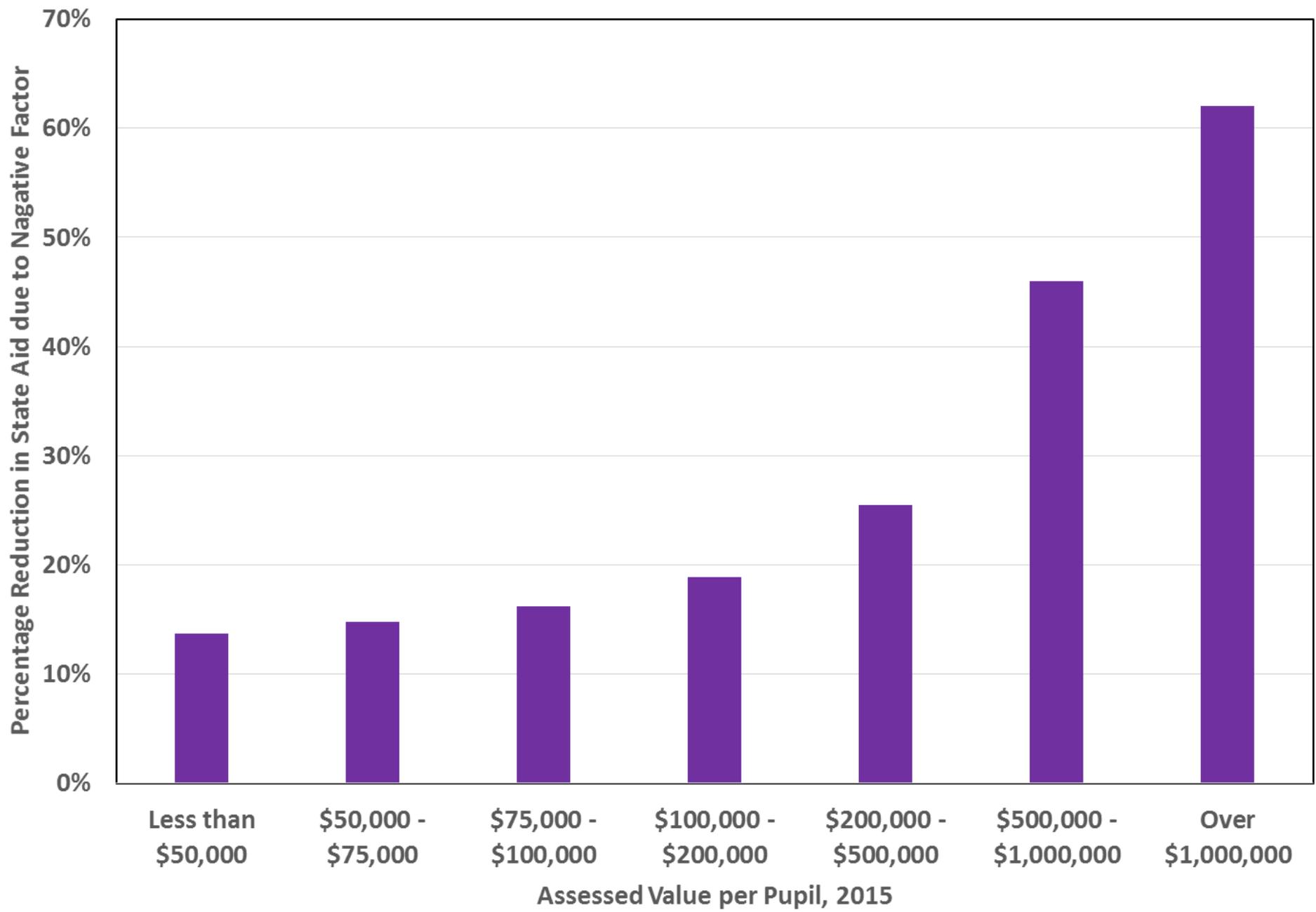
The Impact of the “Negative Factor”



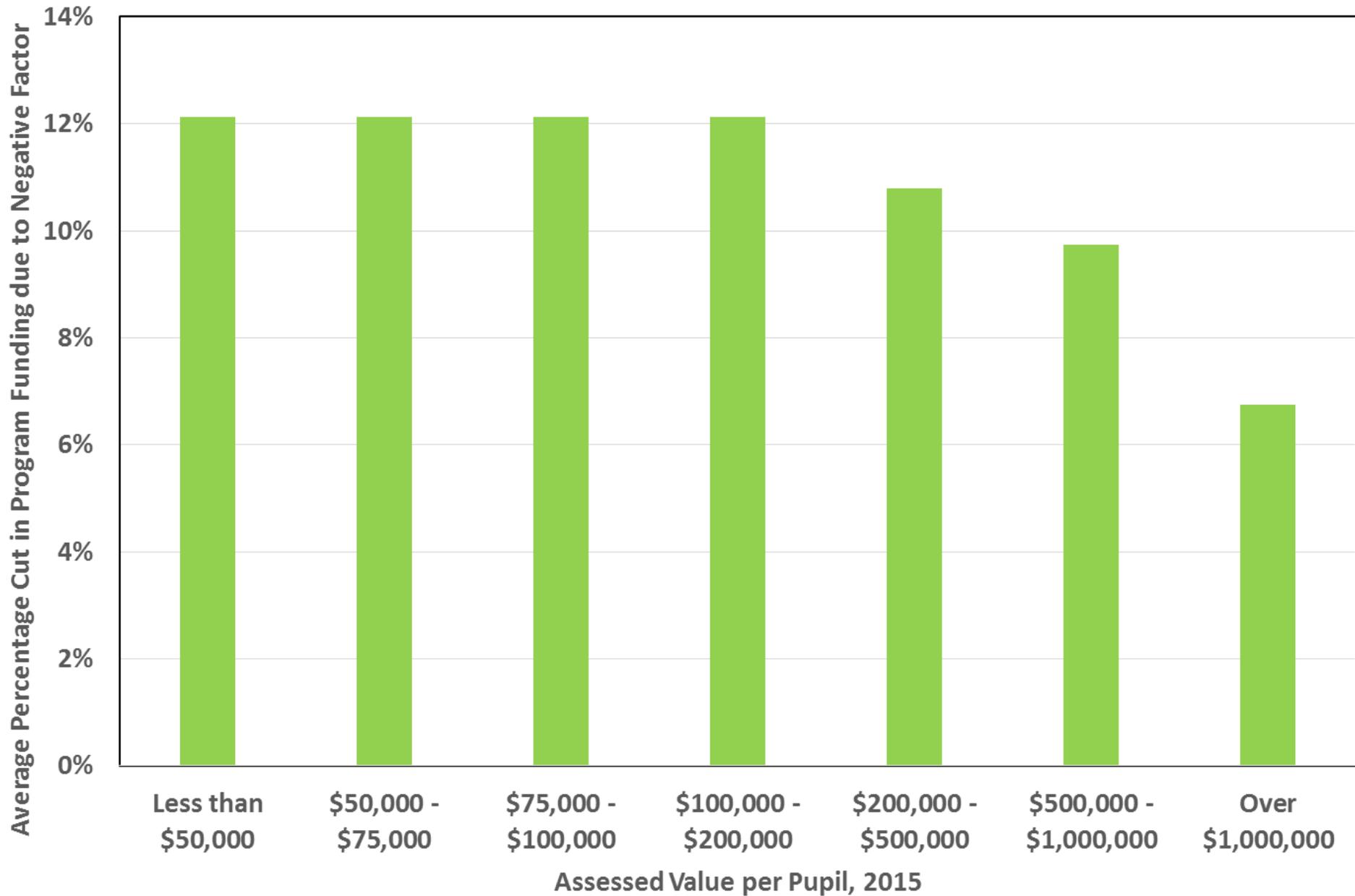
The “Negative Factor”

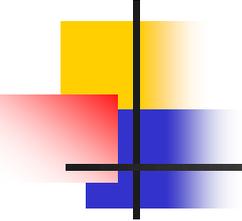
- Reduced state share of program funding by \$855 million in FY 2016
- Cuts total program funding by **lesser of**
 - 12.1% of school district’s program funding
 - The state share of program funding (program state aid)
- Districts with no state program funding (no aid), unaffected by the negative factor

Percentage Reduction in State Program Aid due to Negative Factor, FY 2016

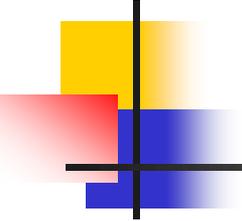


Percentage Cut in Program Funding due to Negative Factor, FY 2016 by Assessed Value per Pupil





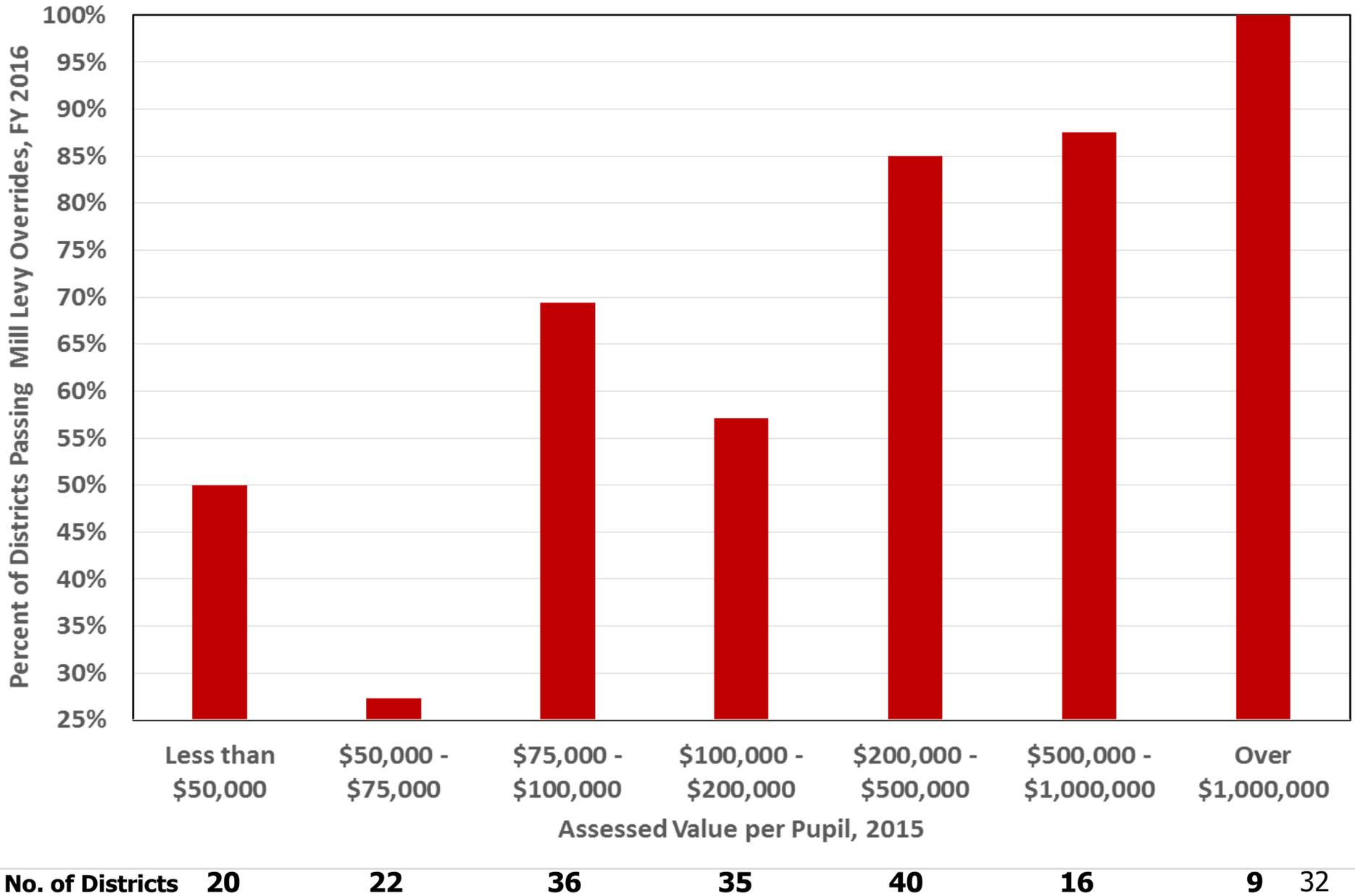
Do Mill Levy Overrides Support or Distort Colorado's School Finance System?



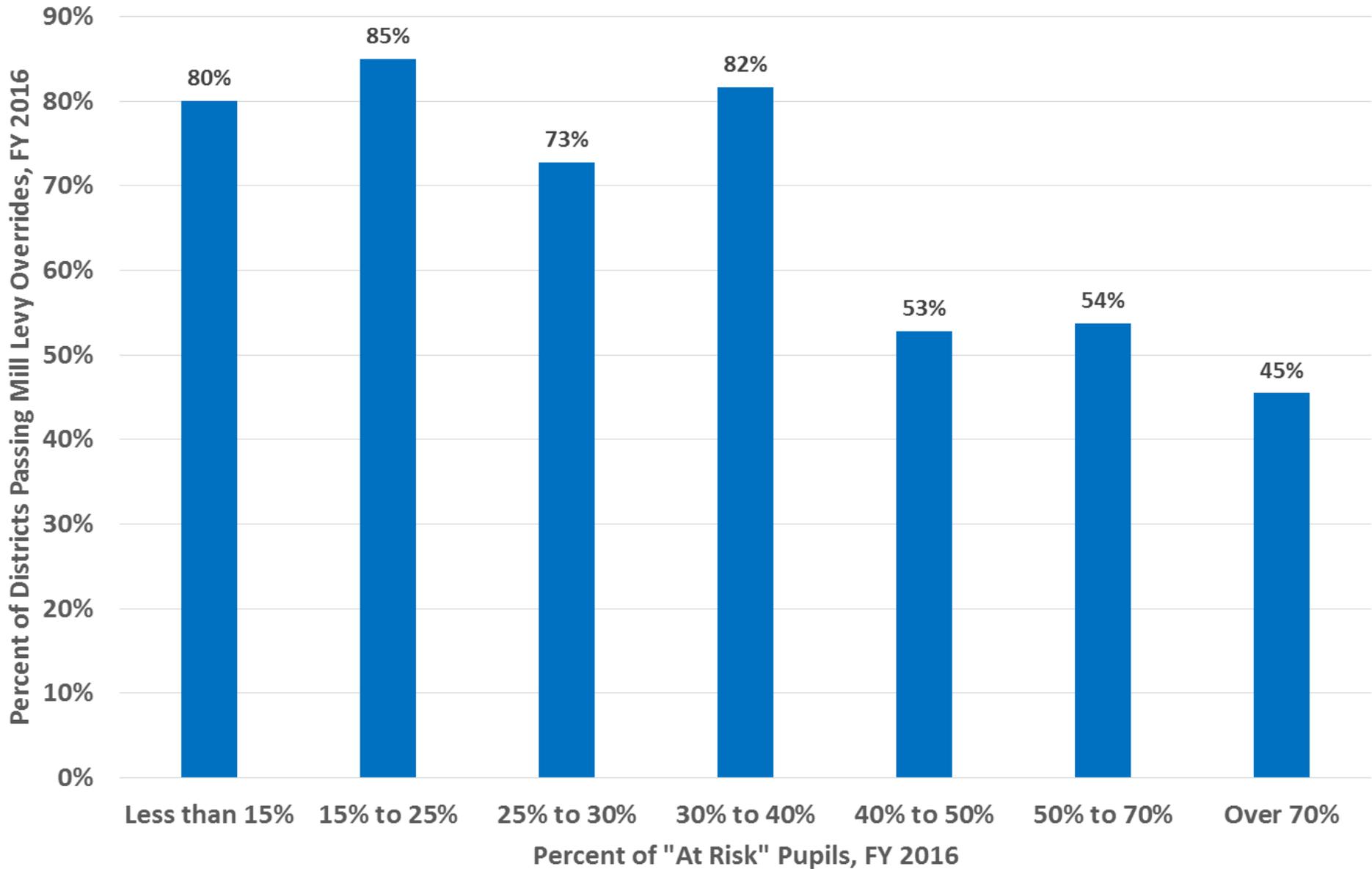
Voter-Approved Overrides in FY 2016

- 118 out of 178 school districts approved overrides
- Overrides totaled \$860.1 million
 - 13.7% of approving districts program formula funding
 - 43.5% of total program funded property tax revenue

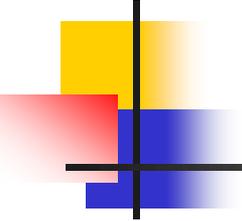
Percent of School Districts Passing a Mill Levy Override, FY 2016 by Assessed Value per Pupil



Percent of School Districts Passing a Mill Levy Override, FY 2016 by Percent of "At Risk" Pupils

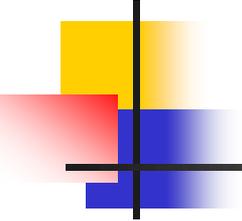


No. of Districts **10** **20** **22** **38** **36** **41** **11** **33**



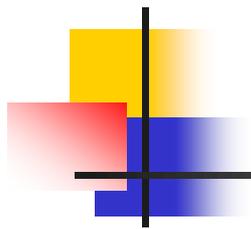
The Benefits of Mill Levy Overrides

- Essential for local control – allows local citizens to decide how much to spend on education
- Allows school districts to finance improved education
- If overrides prohibited, those who are able will enroll children in private schools
- Inequities may be more acceptable if all Colorado pupils are provided with a *quality* education



Limiting Mill Levy Overrides

- Current law limits overrides to 25% or 30% of total program funding
- Some states, e.g. Wisconsin, provides more aid for each dollar of local spending above *foundation level* for low assessed value districts, and recaptures aid, i.e. reduces foundation aid, for high assessed value districts
- Incorporating override revenue in school funding formula would effectively prohibit overrides for all but rich (no state share) school districts



Thank You.

Questions and Comments?