



Understanding Mill Levy Stabilization in Colorado

On March 13, 2007, Governor Bill Ritter and state Senator Sue Windels announced a proposal they call the “Colorado Children’s Amendment.” This proposal would “freeze”, or stabilize, local property tax mill levies for general education to maintain local funding for public K-12 education. As overall costs for K-12 education grow, and as the state government shoulders a growing share of those costs, the state has less money to spend on other services, such as higher education, health care, prisons and transportation.

Since the March announcement, there have been voices in support of and against the measure, but also many questions about the proposal and the potential impact on the state.

Without an understanding of the fiscal basis for the measure and the implications for our budget and our students, many Coloradans who care about education and the future of our state are left without the knowledge they need to fully understand and enter the debate. Colorado fiscal policy is extremely complicated. This paper provides a general explanation of the mill levy stabilization proposal but does not answer all related questions about school finance.

Overview of the proposal

The mill levy stabilization proposal would end automatic decreases in local property tax mill levies in some school districts for K-12 funding. The proposal would halt the growing shift in responsibility from local school districts to the state for funding schools. Without the proposal, an increasing share of the state’s General Fund will continue to be spent on education just to keep student funding on pace with inflation because the proportion of total revenues generated from local property taxes will continue to drop.

The proposal was originally put forward as a series of amendments to Senate Bill 07-199, the School Finance Act of 2007. If passed, the proposal is estimated to yield as much as \$84 million in new revenues for FY 2007-2008. The governor and senator have proposed a number of uses for the new revenue, including spending \$65 million for statewide, full-day kindergarten; \$12.6 million for the Colorado Preschool and Kindergarten Program, which serves at-risk children; and \$6.3 million for 11 school districts now at the “funding floor” for education spending. The proposal would have a cumulative effect, compounding savings for the state’s General Fund over time.

State revenue that would be generated, or freed up, by this change could potentially be spent on a variety of state needs. The details of how any additional funding from mill levy stabilization would be allocated next year or in any future years would depend on decisions made by the legislature.

Technically, the proposed amendment would strike a section of the Public School Finance Act of 1994 that codifies the property tax revenue limits imposed in 1992 by the Taxpayers' Bill of Rights (TABOR) amendment. This limit requires a school district to annually lower its mill levy if its revenue growth exceeds inflation plus growth in student enrollment.

The practical result of the proposed mill levy stabilization would be that in the school districts where voters have approved broadly lifting the revenue and spending limits of TABOR (which includes all but three districts) they would be able to maintain their present mill levies and use all revenue collected under current rates for school funding. Without the proposed amendment, mill levies in many districts will be reduced to avoid collecting revenues in excess of the inflation plus student enrollment limit and local revenue available for schools would continue to drop. These reductions continue to occur even in districts where voters have "de-Bruced" because of language in the School Finance Act. This forces the state to increase its share of education funding. As assessed values rise in these school districts, enactment of the amendment would allow local communities to collect and use the property tax revenues generated by their current mill rate for their local schools.



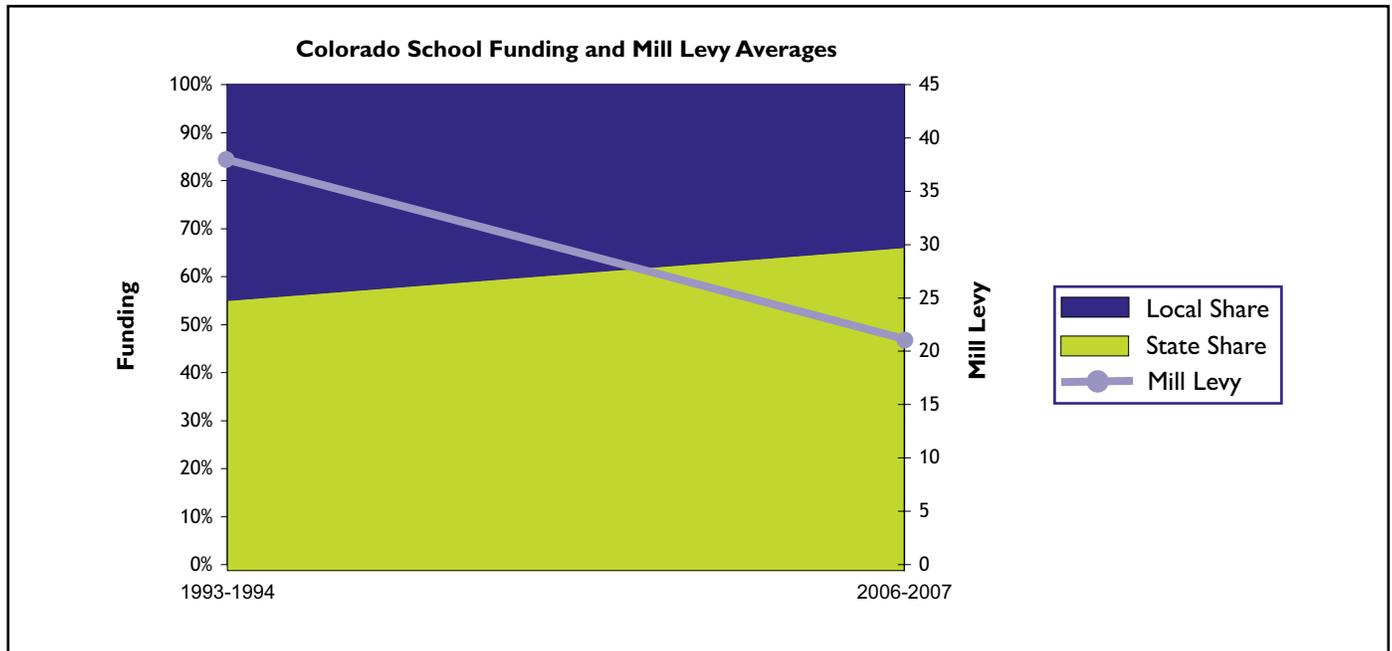
The Fiscal Framework

The School Finance Act of 1988 set up a system aimed at equalizing per-pupil funding in school districts across the state. It set a uniform school district property tax mill levy of 40 mills (with a few exceptions), and provided state "equalization" funding in districts where 40 mills did not raise enough money to finance the local schools. Under this formula, the state provided the most funding for districts that needed it the most. In 22 of the state's 178 districts, no state funds were needed to supplement local property taxes.

Passage of the TABOR amendment in 1992 changed the way rates were established for school district property taxes. In school districts with rising property values and growth that outpaced TABOR's inflation-based revenue limits, TABOR required the district to lower its rates below the 40 mills set by statute. In 1993-94, as TABOR first took effect, school district mill levies averaged 38 mills. By 2006-07, school districts averaged 21 mills, and some are now in the single digits. By 2006-07, all 178 districts were receiving state funds.

State government now pays nearly two-thirds of the cost of K-12 education statewide. In 1989, the state paid 43 percent of K-12 costs. Today, the state pays 64 percent of K-12 costs, while property owners pay 33 percent and vehicle buyers pay 3 percent. Projections show that the state's share of K-12 funding will grow to 70 percent by 2014 because of the ongoing decline of the local share under current law.

Chart I. Shift in K-12 funding from local property tax to state revenues



From 1993-94 to 2006-07, property tax mill levies for school districts have fallen, shifting the balance of funding to support K-12 education in Colorado. In 1993-94, when mill levies averaged 38 mills, the state paid 55 percent of K-12 costs. By 2006-07, with mill levies averaging 21 mills, the state pays 64 percent of K-12 costs.

Source: Colorado Department of Education

State and local education spending has declined in the last 15 years after correcting for inflation and growth in student enrollment. In 2000, voters approved Amendment 23 to restore per pupil funding. Today, per-pupil funding is \$117 below what Colorado spent in 1989 adjusted for inflation (Denver-Boulder CPI). In absolute dollars, total spending on education has grown, and the state share has grown more rapidly. Without correcting for inflation and growth in student enrollment, state spending on K-12 education grew by 132 percent, while local revenues for K-12 grew by 61 percent during the period from 1993-94 to 2006-07.

As TABOR's revenue and spending limits took effect in the mid-1990s, voters began using a provision in TABOR to exempt their school districts from those limits. By 2006, voters in 175 districts approved TABOR exemptions, also called "de-Brucing." These elections authorized a school district to retain and spend all revenues collected under existing tax rates. After de-Brucing, school districts should have been able to hold mill levies steady to keep the money collected for their schools, but language in the School Finance Act prevented them from doing so.

The 1994 School Finance Act set a new formula for establishing school district mill levies and codified into statute TABOR's limits on revenue growth. This statutory formula went beyond TABOR's restrictions by requiring reductions in the local mill levy the following year to keep the school district from exceeding its revenue limit. The automatic reduction in the mill levy imposes restrictions on school districts that neither the state nor other local governments must meet. Because of the 1994 School Finance Act, school districts must lower their mill levy to avoid generating revenue that would exceed the TABOR limit. Other governments not constrained by the School Finance Act can comply with TABOR through a variety of mechanisms, including refunding excess revenue and/or temporary reductions in tax rates. By forcing a school district to reduce its mill levy, the 1994 School Finance Act produced permanent rate reductions regardless of local elections that would otherwise allow the district to use all its revenue. Although 175 districts have won voter approval to exempt school district mill levies from TABOR, none have challenged the 1994 statute, and school district mill levies continue to decline.

Potential Impact of the Proposal

The proposal to stabilize mill levies at current rates would:

- Stop local property tax rates for general K-12 education from decreasing in the future in school districts where voters have agreed to exempt the district from the local revenue and spending limits of TABOR. With mill levies held steady, school districts will collect more revenue as property values rise, similar to the way income tax revenue grows as a worker earns more;
- Decrease pressure on the state government to increase its share of funding to meet basic K-12 program costs. This will free up state General Fund operating dollars over time for various needs, including school finance, increases in specific education programs, such as preschool and full-day Kindergarten; or provide funding for other budget areas, such as higher education, health care, and transportation; and
- Initially freeze the inequities between districts in local property tax effort that have emerged over time as districts have grown at different rates and have thus lowered their mill levies at different rates. Inequities in tax effort among local communities will continue growing if the proposal is not enacted. While most school districts had mill levy rates of close to 40 mills in 1994, mill levies now range from 4 to 38 mills, forcing some taxpayers to pay ten times as much as others. The average mill levy is now about 20, almost half of the level in 1994. Some slow-growth, low-wealth districts are still near 40 mills, while wealthier fast-growing districts have seen their rates drop into the single digits. Enacting the proposal could give the legislature the flexibility and opportunity to lower mill levy rates in districts that have retained relatively high mill levy rates to promote equalization.

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