



Fixing Colorado's Property Tax System in 2019: Step One to a More Equitable and Sustainable PreK-12 Revenue System

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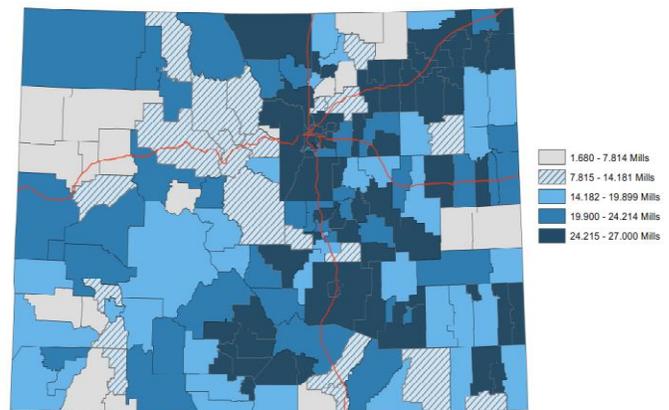
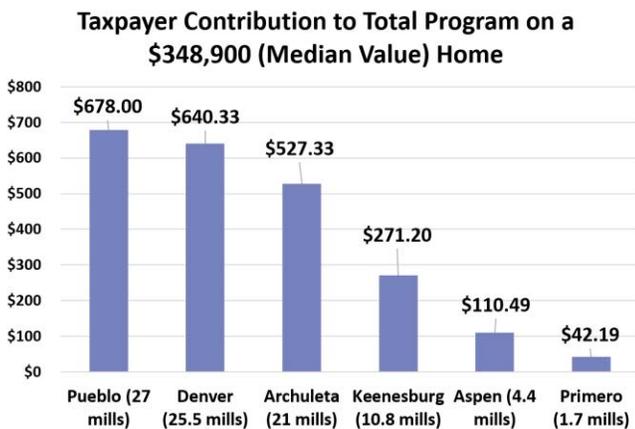
The foundation of Colorado's property tax system that generates education revenue requires certain taxpayers to pay disproportionately high tax rates compared to their neighbors—for no good policy reason. In 2019, legislators have an opportunity to make statutory changes that would reduce property taxpayer inequality and account for and equalize differences in property wealth.

The Fiscal Framework: How did we get here?

- 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 few exceptions) and provided state “equalization” funding in districts where 40 mills did not raise enough money to finance 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. TABOR limited local revenues to grow annually by inflation plus population growth. In districts with rising property values and growth that outpaced TABOR's revenue limits, local *total program mill levies* were statutorily required to ratchet down so revenue remained within that cap. Once the mill levy ratcheted down, it remained down regardless of future changes in assessed value. Between 1993 and 2007, this dynamic created incredible variation in total program mill levies, inequities that were frozen into place by the legislature in 2007 with the passage of SB 07-199.

What does total program mill levy inequality mean for taxpayers?

- At the low end of the range, Primero School District levies 1.68 mills, while 39 districts in Colorado levy the statutory maximum of 27 mills established in SB 07-199. This disparity means that some property owners pay a tax rate that is *14 times higher* than that of taxpayers in neighboring school districts, on houses with the same value.
- In 2018, the median home value in Colorado was \$348,900. If we imagine six identical taxpayers in six school districts, all living in a median value home, the figure below left depicts what each of them pay in property tax for preK-12 education. The state must then backfill whatever amount is necessary to meet the total program funding obligation in each school district. The figure on the right shows the range of total program mill levies across the state. Voters currently have no ability to change the total program mill levy.ⁱ



Map prepared by Legislative Council Staff.

- In the absence of a statewide solution to our school finance challenges, school districts have turned to voters to cobble together 178 local solutions, adding another layer of inequity to our system. Differences in property wealth exacerbate inequality at the local level.

Mill levy overrides: an additional layer of inequality

- With voter approval, communities have the ability to raise and spend property taxes over and above what they receive through the School Finance Act through *mill levy overrides*. Revenue generated stays in the community and goes directly to the school district, without impacting the amount of state funding that district is eligible to receive. In a district with low property wealth, one mill raises less than \$20 per student (Fountain and Byers), while in a high property wealth district, the same one mill raises more than \$3,200 per student (Pawnee).ⁱⁱ Due to the differences in property values across communities, poor districts may be taxing themselves at the highest allowable rate yet generating low amounts of funding, while wealthy districts can generate substantial amounts by raising their property taxes a small amount.ⁱⁱⁱ In part because of how property tax burden hits communities differently, some communities are more successful than others at getting voters to approve tax measures.^{iv}

What does mill levy override inequality mean for students?

- Children in different parts of our state receive dramatically different amounts of funding for their public education above per pupil revenue. Littleton Public Schools (25.35 total program mills) has passed every bond and mill levy override question ever put before voters, resulting in an extra \$2,000 per student in addition to \$298 million in bonding capacity approved in the 2018 election.^v Pueblo School District (27 total program mills), with about 2,000 more students than Littleton and a much higher percentage of students living in poverty, is the largest school district in Colorado without *any* additional mill levy override funding. The district recently adopted a four-day week, and has aging school buildings.

Additional School Funding from Mill Levy Overrides compared to Students Eligible for Free or Reduced Price Lunch, Selected Districts



Source: Colorado Fiscal Institute

What solutions are available to legislators?

2019 is the year that legislators could (1) reduce property taxpayer inequality and (2) equalize differences in property wealth across the state. The solutions below would introduce more equity into our revenue system.

Solution #1: Equalize property tax rates for education to create a level system of taxation.

- For the last three years, the Joint Budget Committee has debated a proposal that would return Colorado to a system requiring consistent local effort for school finance.^{vi} This would not be unusual in our history, as the School Finance Act of 1988 demonstrates.^{vii}
- At the 2018 JBC briefing, JBC staff presented a statutory option to 1) Define a uniform total program mill levy based on priorities (increasing taxpayer equity, increasing local funds available for school finance, etc.). As an example, we could assume a scenario where all districts would be expected to levy 27 mills, or below that level if they are fully funded locally. 2) Authorize school districts to increase total program mill levies with local voter approval. Any district below the uniform mill levy (27 in this case) and not fully funded locally would need to seek voter approval to raise the total program mill levy; 3) Distribute the state share of total program to each district based on the new uniform mill levy, so districts electing not to increase their total program mill levy would face a reduced state share of funding.^{viii}
- This would essentially result in the state no longer subsidizing artificially low total program mill levies by requiring communities to increase their local share contribution. Over time, this will bring consistency to property tax rates across the state. Necessary increases in the mill levy could be phased in over a period of time and/or the amount of state share could be gradually decreased.

Solution #2: Equalize school districts' ability to raise funds through mill levy overrides.

- Send additional dollars to districts with relatively high total program mill levies and relatively low assessed value – where mill levy overrides are difficult to obtain and do not go as far. This would either require (1) a complex calculation of district “ability to pay” that accounts for property tax base relative to median income and concentration of poverty, or (2) the state providing matching funds for new mill levy overrides passed by school districts where per pupil assessed valuation is less than the statewide average assessed valuation per pupil.

ⁱ Read more in our KidsFlash article “The Problem We All Live With but Don’t Talk about: Our Wildly Inequitable PreK-12 Revenue System,” (August 31, 2018) at: <https://www.coloradokids.org/the-problem-we-all-live-with-but-dont-talk-about-our-wildly-inequitable-prek-12-revenue-system/>.

ⁱⁱ Colorado School Finance Project. “Colorado K-12 Funding New Board Member Training.” CASB 2017 Convention. Accessed at https://cosfp.org/HomeFiles/CASB/2017_Convention/New-Board-Training-Booklet-CASB-Nov-2017.pdf.

ⁱⁱⁱ As just one comparative example, in the 2017-18 school year Mapleton School District levied 9.73 override mills (in addition to 26.08 total program mills), with each mill raising approximately \$501,000, or \$61 per pupil in the district. On the other hand, Platte Valley RE-7 levied 1.51 override mills (in addition to just 5.36 total program mills), with each mill raising approximately \$1,654,000, or \$1,465 per pupil in the district. In other words, Mapleton residents are taxed at a much higher rate than residents in Platte Valley RE-7, but each mill raises much less funding per pupil in Mapleton due to lower property wealth. See pages 54-55 of our 2017 KidsCount in Colorado! report at: <https://www.coloradokids.org/wp-content/uploads/2017/10/2017-Kids-Count-low-res-5-3-17.pdf>.

^{iv} See, e.g. *Denver Post* articles “[Colorado school funding disparities on rise, educators call for change](#)” and “[Brighton, Greeley and Grand Junction schools need more funding](#),” or *Chalkbeat Colorado* article [Wins, Losses, and Split Decisions](#).”

^v LPS Future Vision, accessed at <https://littletonpublicschools.net/district/lps-future-vision>.

^{vi} Harper, Craig. 2018-2019 Staff Budget Briefing for the Colorado Department of Education, prepared for the Joint Budget Committee and presented on December 11, 2017. See pages 26-42. Accessed at: https://leg.colorado.gov/sites/default/files/fy2018-19_edubrf_0.pdf.

^{vii} As discussed above, the School Finance Act of 1988 responded to 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>.

^{viii} Harper, Craig. 2019-2020 Staff Budget Briefing for the Colorado Department of Education, prepared for the Joint Budget Committee and presented on December 4, 2018. See pages 26-47. Accessed at: https://leg.colorado.gov/sites/default/files/fy2019-20_edubrf.pdf.