

IN THE KNOW: SCHOOL FINANCE

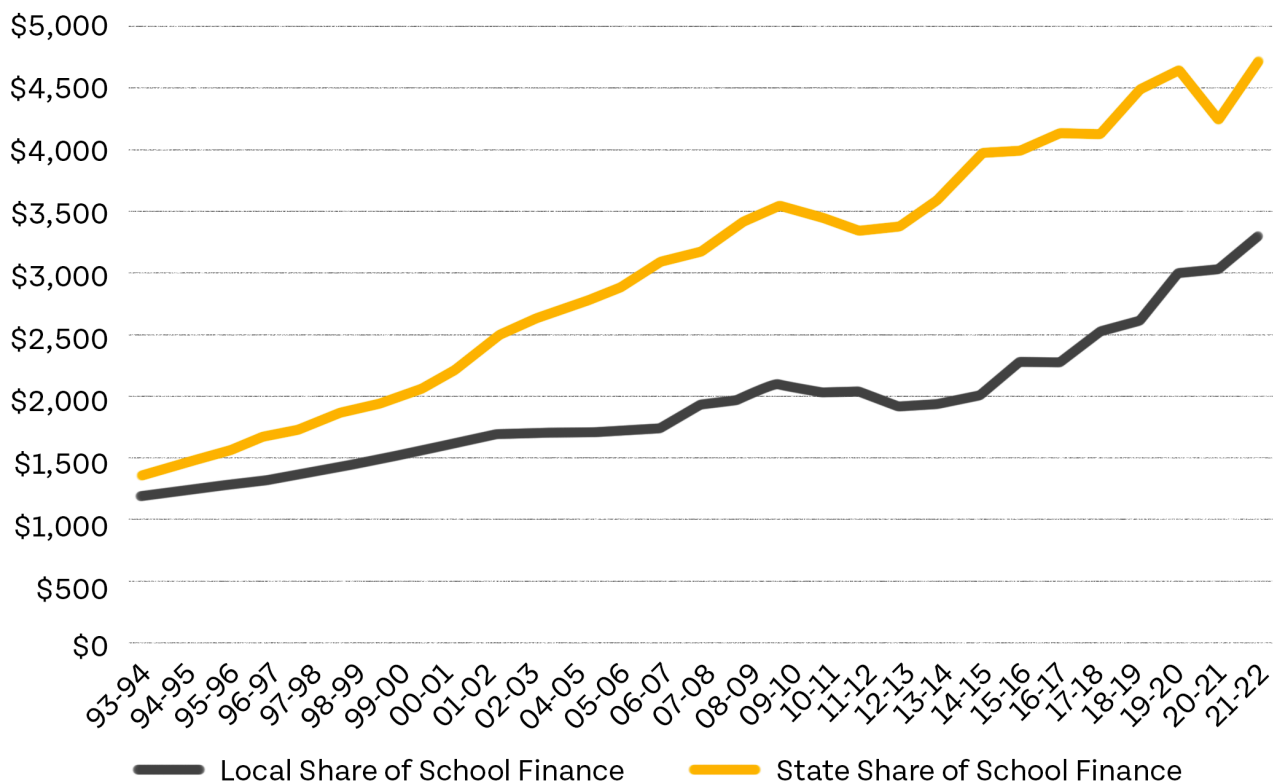
Public education is funded by three revenue streams in Colorado: local property taxes, which are set by local school districts; General Fund dollars that come primarily from Colorado state sales and income tax; and a special fund the state created in 2003 called the State Education Fund (SEF). Because K-12 education is such an important priority for the state, its role in the General Fund – K-12 public education is the single largest expenditure in that budget – cannot be overstated.

In 2020, a little [more than 52% of local property taxes](#) went to local K-12 education. Efforts to bring the local share up have been frustrated by years of conflicting constitutional directives and efforts to buffer residents from property value increases.

The State Education Fund is a product of Amendment 23, which voters passed in 2003 in order to counteract TABOR's impact on school funding. One-third of 1 percent of all taxable income¹ is deposited annually into the State Education Fund. This ensures there is a constant source of money available for K-12 education.

This graph shows how the state share of K-12 education funding – General Fund and SEF – has changed in relation to the local share of funding.

State vs Local School Finance Funding (in Millions)



Source: Bell Analysis of Legislative Council Staff Data From FY 93-94 through FY 20-21

Key Context

1. K-12 public education is funded by a mix of dollars from the state General Fund, local property tax revenue, and income tax revenue that is diverted into the State Education Fund as a result of the passage of Amendment 23 in 2000.
2. Residential property tax revenues have stagnated, while non-residential property tax revenue has increased significantly. Unfortunately, that mix has had adverse impacts on local funding for public education in many communities and has forced state policy makers to dedicate more General Fund revenue to K-12 education over time.
3. Colorado public schools have not received their full level of constitutionally-mandated funding since 2010 – nearly \$10 billion.
4. Colorado is [35th in the country](#) in per-pupil funding, and [last among all states](#) in teacher pay, compared to similarly educated professionals. To get to 25th in the country in per pupil spending, Colorado would need to spend \$1,263 more per pupil, or [\\$1.1 billion total for next year](#).



Historical K-12 Funding

There are a few key moments in the history of school funding in Colorado history:

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In 1982, Colorado voters passed the Gallagher Amendment. The Gallagher Amendment fixed the ratio between residential property tax revenue and non-residential property tax revenue. Non-residential properties would always pay 55 percent of the total property taxes paid in the state, and residential would always pay 45 percent. Over time as property values went up, residential property tax assessment rates went down, and non-residential rates stayed the same. This resulted in higher taxes paid for non-residential properties. This also led to lower local property tax revenue collected primarily in residential communities across the state.

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In 1992, TABOR made it harder for local districts to balance their school funding. Prior to TABOR, local districts could increase or decrease their local property tax rates – known as mills – to best align incoming revenue with projected public education expenditures. After TABOR, local districts could no longer increase mills without taking it to the ballot, thereby often locking the local property mill rates in place.

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In 2000, Colorado voters passed Amendment 23 in response to the combined effects of of TABOR and Gallagher. This constitutional amendment mandated that the state put one-third of one percent of all income tax revenue into the State Education Fund as a way to ensure that there was always some revenue available for K-12 public education, to buffer against declining General Fund money. It also mandated in the state constitution that per-pupil K-12 education funding be increased annually by at least the rate of inflation.

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In late 2008, the Great Recession hit, and Colorado was forced to make significant budget cuts. Because K-12 public education funding is the largest line item in the General Fund budget, it was part of the suite of budget cuts forced upon the state by the Great Recession. When Colorado could not increase education funding by the amount mandated by Amendment 23, the Negative Factor (now known as the Budget Stabilization Factor, or BS Factor) was instituted to reduce the amount of state funding below the constitutionally-mandated floor.

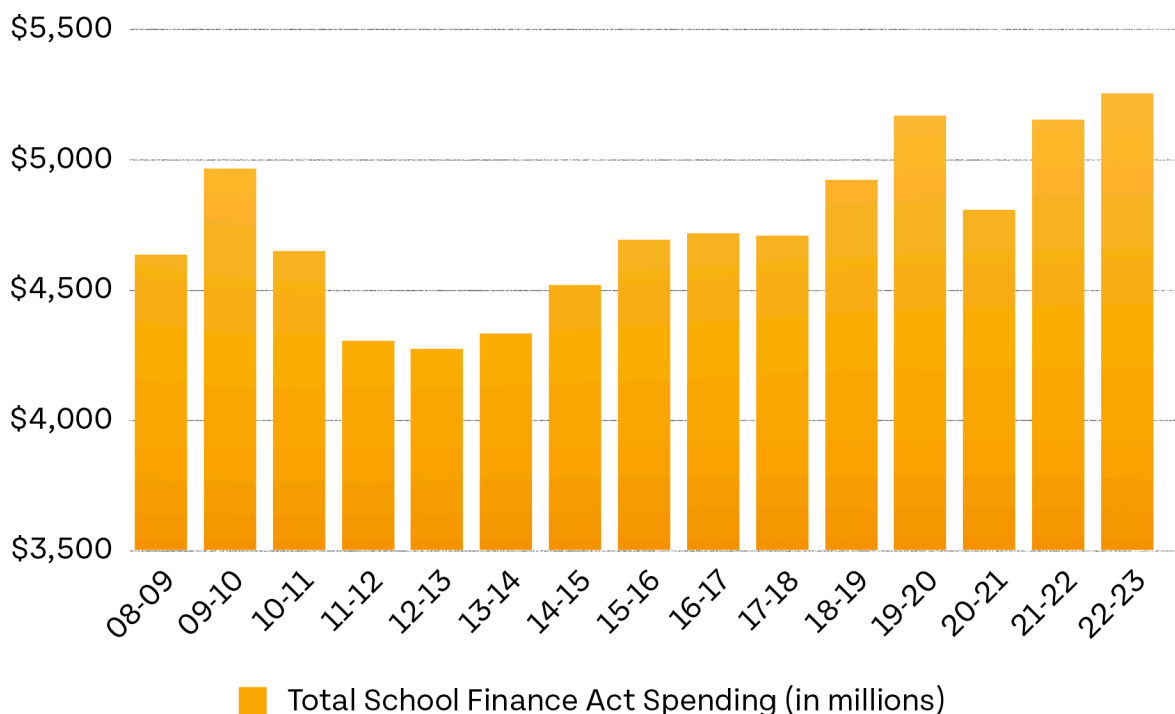
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In 2020, the Gallagher Amendment was repealed. As a result, the state now faces new choices around property tax policy. After years of increases, non-residential assessment rates remain high. Residential rates are considerably lower, but now residential property owners are no longer insulated from tax increases when property values increase. This new reality presents the potential for an increased local share for K-12, and reduction in the state share that would be needed.

A decade past the Great Recession, Colorado annual school funding has only just recovered to pre-recession levels, and this does not factor in the [\\$10 billion dollars](#) – the cumulative BS Factor since it was instituted – that was lost during that time. Recent improvements to the Budget Stabilization factor – the annual 2022-23 BS Factor is \$321 million, which is the lowest since FY 2010-11 – have come from one-time prioritized investment from the General Fund and a helpful boost from federal government funding during COVID.

The below graph demonstrates how long it took for K-12 education spending to rebound from the Great Recession.

Total School Finance Act Spending, Inflation Adjusted



Source: Bell Analysis of Legislative Council Staff Data



But... What About Marijuana Money?

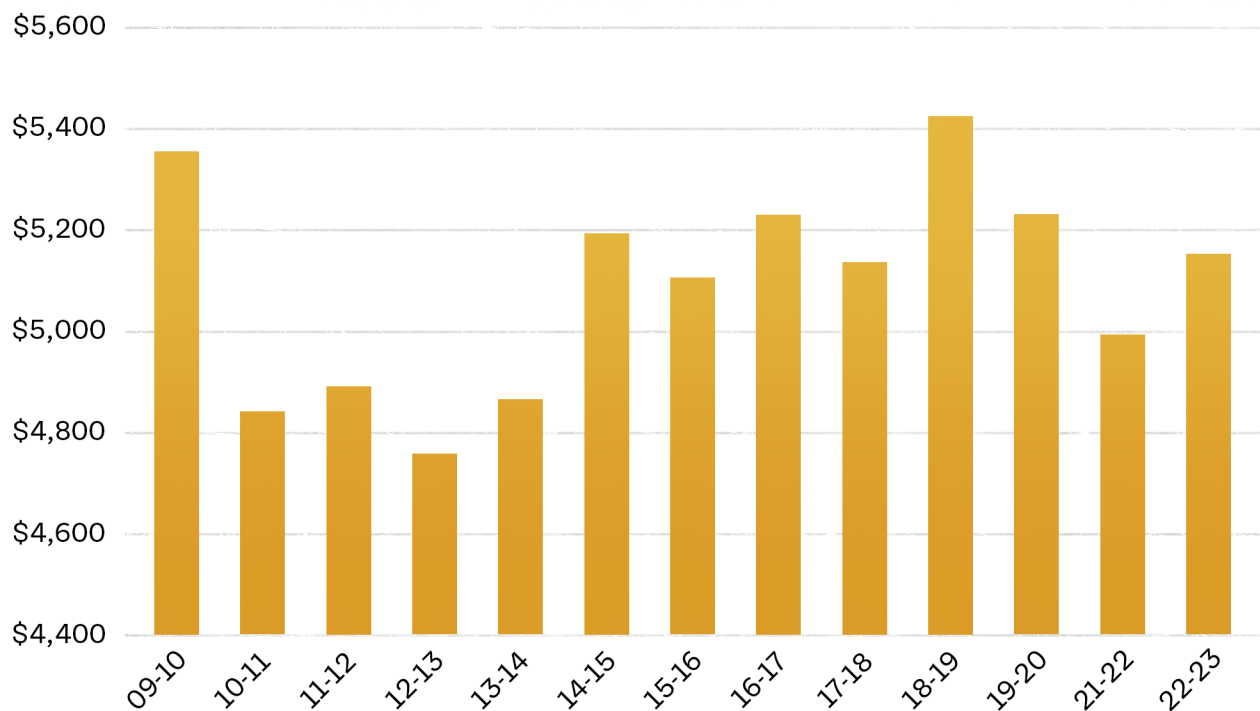
Many Coloradans believe recreational marijuana sales are a major funding source for Colorado schools. The [Colorado Department of Education notes](#) that in FY 2020-21 the dollars from the sale of marijuana that went to public schools was \$175.4 million. Total state funding for K-12 education was \$4.2 billion, meaning marijuana revenue makes up just 4 percent of all K-12 spending. Additionally, marijuana revenue can only be used for capital construction, not school operations.

Historical K-12 Funding

While many Coloradans may look to the BS Factor as the way to measure adequate education funding, the full story is more nuanced. The BS Factor is a good guide to how much Colorado is funding education under the Amendment 23 guidelines, but it doesn't account for many factors – some that have become more pronounced in recent years – that influence school funding.

Here is a look at how the state has funded K-12 education, on an inflation-adjusted, per-pupil basis, over the last decade and a half:

State Share of Per-Pupil Funding Over Time (Inflation Adjusted)



Source: Bell Policy Center analysis of Joint Budget Committee data

The Bottom Line for Colorado's K-12 System:

- Colorado is [35th in the country](#) in per pupil funding.
- According to the [Economic Policy Institute](#), Colorado teachers are paid nearly 36 percent less than similarly educated professionals in the state. That is last of all states in the country.
- K-12 funding in Colorado has been stagnant for decades. Even if the entirety of the BS factor was repaid to K-12, when adjusted for inflation, funding for Colorado schools would only be comparable to 1989 levels. That's according to figures reported by Colorado Public Radio education reporter Jenny Brundin.
- To make Colorado 25th in the nation in just one year, the state would need to spend [\\$1.1 billion dollars](#).

Endnote

1. "Taxable income" is different from "tax revenue" as income can be reduced for tax purposes by utilizing tax credits and deductions. Using "taxable income" ensures that the pot of money for education is not changed by increases in certain credits and deductions that are enacted by the state.