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Making the Turn ...

The Colorado General Assembly is now halfway through its 120-day session, and like all good procrastinators, legislators are saving the most difficult tasks for last.

The problem is pretty simple, really: Your 100 elected state officials don't have any money, and they can't agree how to make ends meet. Big-ticket items like education, transportation and social services are all competing for an ever-

shrinking pool of state dollars. Since the Colorado legislature is the only one in the United States that can't make tax policy, Colorado voters are likely to see a number of ballot questions related to taxes over the next few years.

Legislators, by law, have to balance the state budget every year. With the prospect of a \$600 million funding shortfall staring state officials in the face, whatever choices are made are not going to make many people happy. Some legislators are even talking about the possibility of a special session this summer to address Colorado's budget problem. If you think 100 lawmakers are cranky now, just wait until they have to come back and tackle the state budget in the heat of a Colorado summer (with a solution no more likely than now).

State economists will release the March revenue forecast on Saint Patrick's Day, but it is doubtful even the luck of the Irish will be able to improve the revenue picture. This forecast is doubly important because it is the last one before the Joint Budget Committee (JBC) releases its proposed budget for consideration of the full legislature.

CASB's advocacy team will provide an update on the forecast once it's released. For more information on why 2017 is shaping up to be a very difficult fiscal year, read on, dear reader.



Property Tax About-Face Creates School Funding Dilemma

Increased revenues from district property taxes provided a cushion for school funding in 2016-17, but a constitutional squeeze on those revenues threatens K-12 support in the upcoming school year.

The problem adds a new dimension to the always-hard school funding debate at the capitol and could lead to a larger negative factor next year.

State economists predict property tax revenues for schools will drop \$165 million in 2017-18 because of the requirements of what's called the Gallagher Amendment. A funding plan proposed by **Gov. John Hickenlooper** would cover the shortfall with unconventional revenue sources – a transfer from senior citizen property tax exemptions and increased marijuana taxes.

There's been a notable lack of enthusiasm for the governor's plan. Even if lawmakers buy it, the negative factor would rise to \$876 million in 2017-18, up from this year's \$831 million.

Just before the 2016 session, lawmakers learned local property tax revenues came in \$133 million higher than projected, giving them some flexibility as they crafted the 2016-17 school funding law. Legislators didn't have to rely as heavily on state funds and even were able to shrink the negative factor from the \$855 million level of 2015-16.

Why does one year make such a difference, and why are revenues from residential property taxes set to shrink when the market value of homes has been climbing dramatically?

You can find the answer in Gallagher's provisions that fix the relative property tax burdens of residential and non-residential real estate.

The amendment was proposed by the legislature and passed by voters in 1982. It mandates that residential properties contribute 45 percent of total property tax revenues. Non-residential property provides 55 percent. Why were those percentages picked? The amendment basically froze the percentages that existed in the early 1980s.

Tax bills aren't calculated directly on a property's actual market value. For non-residential property, a fixed 29 percent of market value is used for calculating taxation. That amount, called assessed valuation, is multiplied by a district's tax rate, called the mill levy, to come up with a property's tax bill.

But to maintain the 45-55 ratio, the assessed values of homes aren't fixed. When residential values rise faster than non-residential values, which is what's happening now in some areas of the state, residential revenues have to be reduced in order to maintain the 45 percent ceiling.

To comply with the Gallagher ratio, the percentage of a home's value that's subject to tax has to be reduced. Currently property tax is calculated on only 7.96 percent of a home's market value. State analysts estimate that could drop to 6.85 percent in 2017-18.

The effects of Gallagher are amplified by its interplay with a better-known constitutional amendment, the Taxpayer's Bill of Rights (TABOR). The bottom line is that Gallagher forces property tax rates down, and TABOR means they can't go back up even when market conditions and values change.

The interaction of the amendments has relentlessly reduced the local contribution to total Colorado school funding from 57 percent in the late 1980s to 36 percent now.

School finance law requires that the state backfill costs not covered by local funds. Because of TABOR's limits on state spending and because of budget demands for large programs like Medicaid and transportation, lawmakers have little or no extra state general fund money lying around for schools this session. That will make the school funding discussion particularly tough this session.

But it's a discussion that won't get really serious until after March 17, when executive and legislative economists unveil the updated revenue forecasts lawmakers will use in final deliberations on the 2017-18 state budget and school funding.

The [Colorado Fiscal Institute has produced a video](#) that explains the problem in a graphical way.

~ Todd Engdahl, Capitol Editorial Services



This 'n' That

There are a few education-related bills that CASB members need to be aware of. Please check out the [CASB Bill Tracker](#) for all the details.

[House Bill 1176](#) – Public Employees Retirement Association (PERA) Retirees Employed by Rural School Districts

- Sponsored by Rep. Jon Becker (R), Fort Morgan, and Sen. Jerry Sonnenberg (R), Sterling
- Allows PERA retirees to work in certain hard-to-fill positions in rural school districts without impacting their current PERA retirement.

[House Bill 1181](#) – Required State Assessment for Ninth Grade Students

- Sponsored by **Rep. Brittany Pettersen** (D), Lakewood, **Rep. Paul Lundeen** (R), Monument, **Sen. Nancy Todd** (D), Aurora, and **Sen. Kevin Priola** (R), Henderson
- Aligns ninth- and 10th-grade testing to content standards and the 11th-grade state-administered college-preparedness test.

[House Bill 1187](#) – Change the Excess State Revenues Cap Growth Factor

- Sponsored by **Rep. Dan Thurlow** (R), Grand Junction, and **Sen. Larry Crowder** (R), Alamosa
- Changes how the Taxpayer's Bill of Rights (TABOR) revenue limit is calculated, moving from a factor of growth and inflation to a rolling five-year average of personal income.

[Senate Bill 61](#) – Additional Funding for Charter Schools

- Sponsored by **Sen. Owen Hill** (R), Colorado Springs, **Sen. Angela Williams** (D), Denver, and **Rep. Lang Sias** (R), Arvada
- Requires school districts to share mill levy override (MLO) funds with district-authorized charter schools even if the charter school did not exist when the MLO was approved by local voters.

The next CASB legislative conference call will be Tuesday, March 14, at 8 a.m. Join Matt Cook and other CASB members for an update on the latest education-related bills, and ask your questions about specific bills. (Details below.)

CASB Advocacy Tools

- [CASB Bill Tracker](#)
- **CASB Legislative Conference Call**
Tuesday, March 14 at 8 a.m.
Dial 877-240-8466
PIN: 8115970342#
Presentation available at <http://join.me/mattcookcasb>
- **CASB members at Education Committee** – [Sign up here](#)
- [CASB Days at the Capitol](#)



Our next Day at the Capitol is Wed., March 15. Join us at CASB for a briefing with our advocacy team, followed by a visit to the Colorado Legislature to see the House and Senate in action. To find out what's scheduled, visit the [Colorado General Assembly website](#).

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