

# Proposition HH Issue Brief: Education

## Key Findings:

- Up to 95% of the funds retained under Proposition HH will go to the state education fund, which is estimated to provide up to \$9.6 billion for education through 2032. K-12 education will be the primary beneficiary of the \$9.9 billion increase in state spending given the limited cap on rental assistance and the dwindling need for future backfill. Proposition HH provides billions of dollars to education yet is not accompanied by guidelines, guardrails or metrics related to student performance.
- The new source of revenue for education comes at a time of record K-12 spending. The current FY24 budget increased education funding by 9.4% per pupil reaching \$10,614 per student.
- Eliminating the state budget stabilization factor would mean that schools are fully funded to the required level under Amendment 23 which requires an annual increase in per pupil spending of at least the rate of inflation.
- This leaves an open question about whether education funding would grow beyond Amendment 23 requirements, or if state taxes retained under Prop HH simply reduce the use of General Fund dollars, thereby creating a broad tax increase that substantially grows the state budget.
- By 2027, state tax revenue generated by Proposition HH, through the retention of future TABOR refunds, will likely grow to be larger than the annual increase in the state's share of required education funding.
- By 2032 this would produce \$2.4 billion in increased education funding and more than \$7.3 billion in future General Fund revenue in the form of a blank check that the legislature could divert away from education to other spending. By 2040 that could grow to \$14.7 billion in new education funding and \$27 billion in diverted General Fund spending.
- Despite evidence of the connection between teacher quality and student outcomes, Colorado school spending has increased 47% between 2007 and 2021, while teacher pay only increased 27%. With no metrics or outcomes attached to the dollars, it is unclear whether the additional dollars would prioritize teacher pay.

## Overview

Proposition HH is a very complex ballot measure. Voters must understand the measure's far-reaching, and often disparate, impacts on different groups of Colorado taxpayers and different areas of state spending to make an informed decision.

Proposition HH will both reduce the growth of local property taxes and will likely increase state taxes. K-12 education funding stands out as the primary beneficiary of higher state taxes. Importantly, these funds flow to the public education system without guidelines or guardrails for how the money will be spent, and without metrics for student outcomes.



## Where Does the Increase in State Taxes Under Prop HH Get Spent?

According to the second draft of the Blue Book developed by Legislative Council Staff, the increase in state tax revenue will be spent in three separate ways:

- **Up to 20 percent** to reimburse local governments for lost property tax revenue;
- **Up to 20 percent** for rental assistance;
- **The remaining funds** to reimburse school districts for reduced property tax revenue as a result of the measure, and for education-related programs.

Under the full potential spending allocation under Proposition HH, 95% of the increase in state taxes could go to K-12 education.

**However, analysis of recent data suggests that much less than 20% of retained state revenue will be needed for the local government backfill and much more will be used for education funding.**

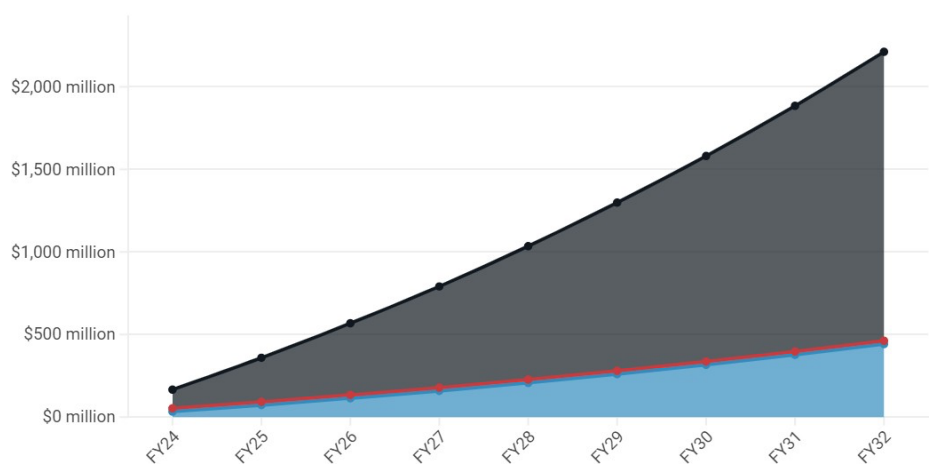
The Blue Book analysis indicates that \$160 million will be needed to backfill local governments in the first year. However, those estimates are based on a December 2022 forecast developed by the Legislative Council Staff. That forecast assumed a statewide increase in residential assessed value of 26.5%, and an increase in non-residential assessed value of 18.9%. But actual increases in property values now appear that they were much higher than this forecast.

Based on a survey of preliminary 2023 values released by the Colorado Assessors Association, the average increase in residential property values is just under 44%. Just four counties (Baca, Dolores, Jackson and Washington), had residential property value growth between 15% and 20%, and all others reporting data were higher--some significantly. Given most backfill funding ceases after assessed value grows more than 20% from 2022 levels, it is very likely that the actual cost of the backfill for local governments under Proposition HH will be lower than the current estimates of \$160 million in FY25 and \$70 million in FY26.

### CSI Analysis - Spending Allocation Under Proposition HH

Scenario - Full Potential Allocation Amounts

■ 20% For Local Government ■ Rental Assistance Cap ■ Amount Available for Schools

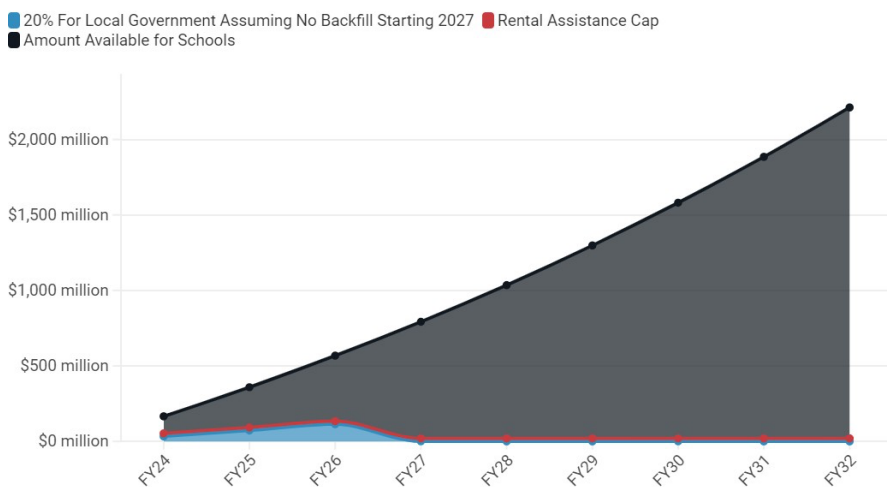


K-12 education will be the primary beneficiary of the increase in state spending given the limited cap on rental assistance and the dwindling need for future backfill to local governments. **CSI projects that under a more plausible scenario, where local backfill ceases by 2027, up to 95% of the funds retained under Proposition HH between 2024-2032 will ultimately go to the state education fund.**

The new source of revenue for education comes at a time of record spending levels. The current FY24 budget increased state education funding by 9.4% per pupil, reaching \$10,614 in state program spending per student. The outstanding \$141 million remaining in the budget stabilization factor in FY24 is also projected to be eliminated in next year’s budget. The budget stabilization factor is the annual amount the legislature has chosen to reduce the state budget commitment to K-12 education when faced with budgetary constraints. This would mean that schools are fully funded to the required level under Constitutional Amendment 23 which requires an annual increase in per pupil spending to at least increase by inflation.

While Proposition HH stipulates that money retained by the measure cannot replace existing state spending, it is unclear how that will play out in the future. It could likely mean that state funding cannot fall below current spending levels, and Proposition HH revenue would be used to meet the growth in education funding requirements under Amendment 23. **This leaves an open question about whether education funding would grow beyond Amendment 23 requirements, or if state taxes retained under Prop HH simply reduce the use of General Fund dollars, thereby creating a broad tax increase that substantially grows the state budget.**

**CSI Analysis - Spending Allocation Under Proposition HH**  
Scenario - Reduced Need for Local Backfill



The text of Proposition HH indicates that new state tax revenue retained under the measure through the retention of future TABOR refunds can not “supplant” or state spending on education. This can generally mean that the state budget allocation to education cannot be cut and replaced with new HH revenue, but it does not mean that state spending from existing revenue sources has an obligation to increase in future years.

By 2027, new state tax revenue generated by Proposition HH would be sufficient to meet the state’s share of the funding obligation for education. This would mean that General Fund revenue going towards education from existing sources would no longer need to increase in future years. Therefore, future General Fund revenue that under current projections would be allocated towards education, would instead be allocated towards other areas of the budget.

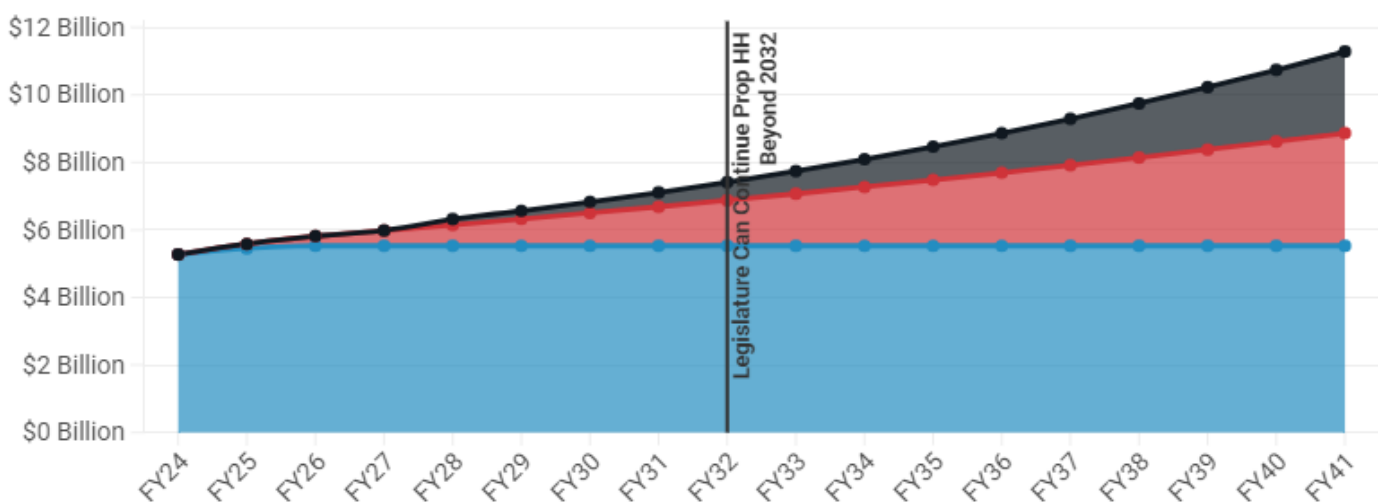
In the chart below, the red shaded area reflects the annual amount of new tax revenue from Prop HH that would go meet the state’s education funding obligation. By 2032, Proposition HH could generate a cumulative \$7.3 billion dollars in new state tax revenue that would be used to meet the state’s share of the Constitution funding obligation to public schools. This would mean an equivalent amount of General Fund revenue from existing sources, would be a blank check that could be diverted to new spending priorities. Should the Legislature choose to continue the tax effects of Proposition HH, the cumulative amount of new state revenue available for spending outside of education would reach \$27 billion.

The dark shaded area reflects the annual amount of new tax revenue from Proposition HH that goes to education, **above the state’s funding obligation**. By 2032, new state tax revenue under Proposition HH could generate a cumulative increase of \$2.4 billion in new education spending above the constitutional requirement for education funding. By 2040, the total amount grows to \$14.7 billion in new education spending.

### Prop HH Retains More Revenue from Future TABOR Refunds Than is Needed to Fully Fund Schools

By 2033, Proposition HH has potential to divert more than \$7.3 billion of General Fund revenue that otherwise would have gone to education. By 2041 the cumulative amount could reach \$27 billion.

- State Share From Existing Revenue To Education Funding
- Prop HH New Tax Revenue To Meet State Education Funding Share
- Prop HH New Tax Revenue Above State Education Funding Share



Source: CSI Calculations based on available state data • Note: Years shown reflect year funds are available for spending, rather than year collected.

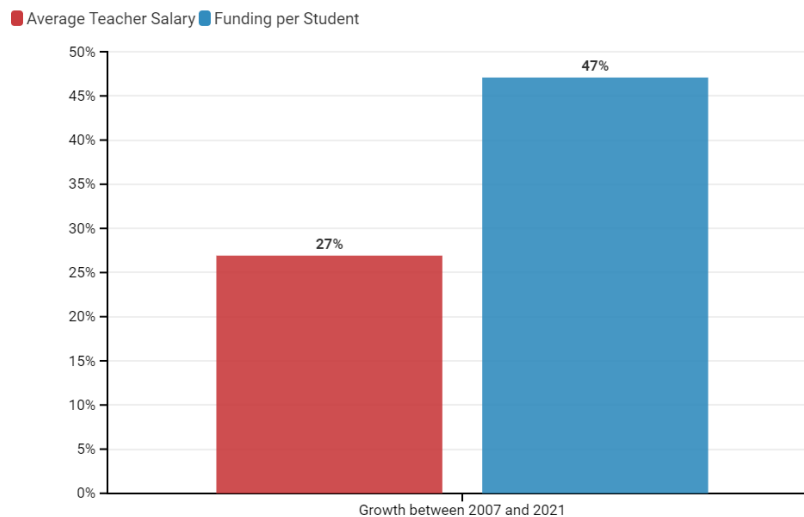
**Most importantly, this significant increase in funding prompts an analysis of how these additional dollars will be spent, and what improvements in student outcomes can be expected from these expenditures.**

Despite evidence of the connection between teacher quality and student outcomes, while school spending increased 47% between 2007 and 2021, teacher pay only increased 27%.<sup>i</sup> Data similar to this provokes skepticism that the windfall of additional dollars for education projected to flow from Proposition HH will yield improved student outcomes unless the additional dollars are accompanied by guidelines, guardrails and metrics for performance or are allocated in fundamentally different ways than the current formula that could better prioritize student needs.

Work by CSI and others have also shown that the current state funding formula for schools overemphasizes cost-of-living factors rather than student factors, which results in wealthy areas such as Aspen receiving higher funding than areas with more poverty such as Pueblo. Without changes to the school finance formula, it is unclear how a significant increase in state education funding will lead to improved student outcomes or desired increases in teacher pay.

#### Growth of Teacher Salaries and Per-pupil Education Funding in Colorado from 2007 to 2021

Over the last 14 years, education revenue per pupil has increased by almost 50% and the average teacher salary has grown by only 30%.

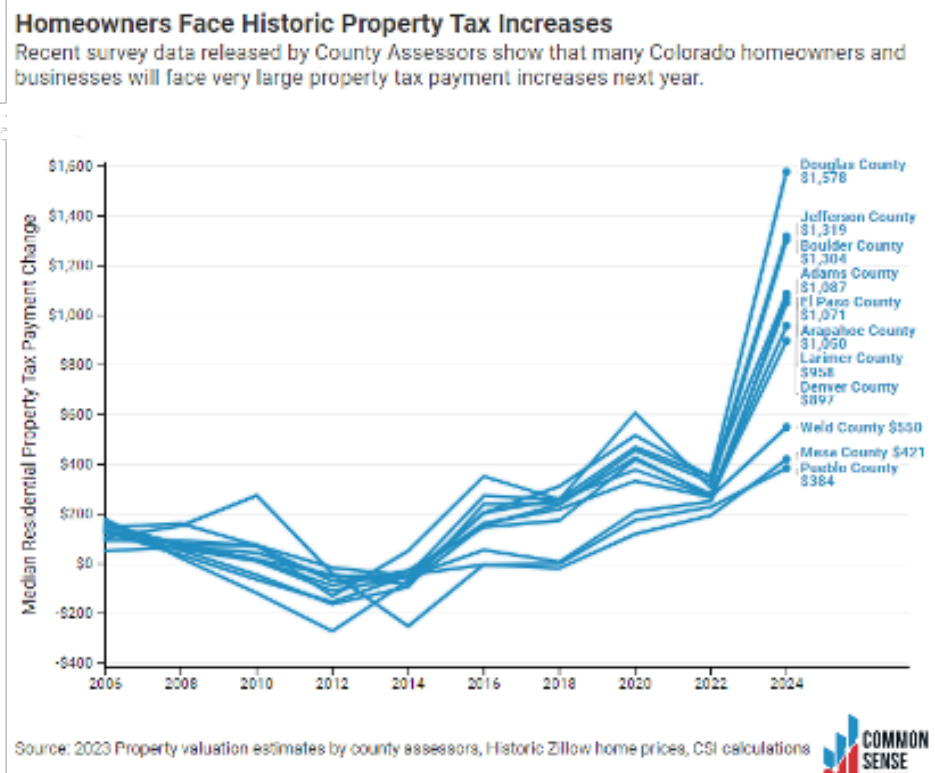


The 2023 School Finance Act established a new state task force with duties to recommend changes to the school finance formula including ones that “prioritize student needs.”<sup>iii</sup> Yet Proposition HH, as it goes to the voters, does not make substantive changes to the funding formula, and therefore does not include any ties to accountability for student outcomes.

## Proposition HH Key Points

### How Did We Get Here:

- Since 2020, two factors have combined to fuel a dramatic increase in Colorado’s residential property taxes. First, increased demand relative to supply and inflationary pressures have driven up home values. Second, the 2020 repeal of the Gallagher Amendment, which had limited the growth in residential property taxes, allowed residential tax rates to increase without a moderating mechanism.
- Recent survey results from county assessors indicate that home values across Colorado increased 40% on average over the last two years. Along the Front Range, rate increases ranged from 35% in Elbert County to 47% in Douglas County. Some mountain resort communities saw home values rise as much as 70%. The 2023 tax bill for the median priced home in multiple front range counties is expected to increase by more than \$1,000, representing a significant cost to households.
- After employing one-off, stopgap measures to lessen the impact of property tax hikes over the last two years, the legislature, at the very end of the 2023 legislative session, passed a referred measure placing Proposition HH on the November 2023 ballot.



<sup>i</sup> <https://commonsenseinstitute.co/dollars-and-data-a-look-at-pk-12-funding-and-performance-in-colorado/>

<sup>ii</sup> <https://commonsenseinstitute.co/dollars-and-data-a-look-at-pk-12-funding-and-performance-in-colorado/>

<sup>iii</sup> [https://leg.colorado.gov/sites/default/files/documents/2023A/bills/fn/2023a\\_sb287\\_f1.pdf](https://leg.colorado.gov/sites/default/files/documents/2023A/bills/fn/2023a_sb287_f1.pdf)

## About Proposition HH:

Proposition HH impacts both property taxes and refunds that taxpayers may receive under Colorado's Taxpayer Bill of Rights (TABOR). If passed, it will reduce the assessed value for certain residential and commercial property classes, thus blunting but not eliminating recent and future property tax increases. It will also increase taxes by allowing the state to retain more taxpayer revenue under the provisions of TABOR. **Statewide, the potential aggregate property tax revenue reductions under Proposition HH amount to \$9.92 billion through 2032, while the potential reduction in TABOR refunds total \$9.9 billion. Should the legislature choose to extend Proposition HH through 2040, which it could do without taxpayer approval, there could be a net tax increase of \$20.1 billion through 2040.**

Check out CSI's calculator at  
**[www.MyPropertyTaxCO.com](http://www.MyPropertyTaxCO.com)** to  
understand how  
Proposition HH impacts you.