Scenario 1 – Statewide 4-Mill Property Tax Levy for Community Colleges

Based on 2008 assessed valuations, a statewide 4-mill property tax levy would generate around $350 million. If these funds were restricted solely to community colleges, it would represent a significant increase in governmental support for community colleges. It would also represent a desire by local citizens to support the community college system. Community Colleges received about $150 million in FY 08, the high point for higher education state support. This could lead to greater cooperation between community colleges and local K-12 public school districts. It is important to note that two-year public institutions accounted for nearly 55% of the Hispanic and African-American Colorado resident enrollment in the fall of 2009. This increase would allow the community college system an opportunity to respond to the dramatic change in the economy that will require constant upgrading of job skills, techniques and other activities for most employees. It could provide the necessary resources so that technical and vocational skills could be expanded to include those students not wishing to continue on to a four-year program. This would also free up the $150 million now sent to community colleges to the remaining higher education institutions.

Pros: For the first time, community colleges would receive significant increases in state funding that would allow enhanced offerings, ranging from remediation to technical and vocational training and upgrades for traditional skilled-workers. A statewide system would enable the state board to distribute these benefits statewide, instead of only a few large or wealthy counties or collection of counties. A levy of four mills would cost the owner of a $200,000 house $65 per year or slightly more than $5 per month. The business community would be providing more than 50% of the tax support. Businesses now require an ever-increasing educated population to function in a modern, global economy.

Cons: Would require a favorable vote to impose a statewide tax. With a separate funding stream, community colleges may be considered differently from the rest of public higher education.

Scenario 2 – Local Taxes for Colleges and Universities

This would allow a county or group of counties, a municipality or group of municipalities, or a combination of local governments to levy either a sales or property tax within their jurisdiction to support their local college or university. In addition, the state could provide some sort of a funding match or a fixed guarantee to encourage local governments to help fund their institutions.

Universities and colleges provide a significant and positive economic impact to local economies. Some are the economic engines of their respective localities. Under this scenario, local taxes would be collected and given to the institution to help it survive.

Pros: Demonstrates the willingness of the local area to support its higher education institution(s) and to recognize its contribution to the local economy. State matching funds might incent likelihood of passage.

Cons: Would require voter approval. Great disparities exist among Colorado counties may negate local efforts to maintain existing institutions. A property tax increase may raise $20 million in one county, but only $500,000 in another. The state may not have sufficient revenues to provide matching funds.

Scenario 3 – Expansion of Sales Tax to Specific Services Earmarked for Related Programs

Based on an analysis from the Legislative Council, expanding the 2.9% state sales tax rate to prescription drugs would have generated $62 million in 2009, while applying the rate to veterinary services would have brought in $9 million. These roughly correlate to the state funding provided to the CU Med School (about $66.8 million) and the CSU Veterinary School (about $12.8 million). A proposal could be made to earmark sales tax revenue from these, or other expanded services (i.e., attorney fees), to related higher education programs and these revenues could roughly provide current funding for the Med and Vet Schools.

Pros: Might be more palatable to voters than a property, sales, or income tax rate increase, especially if tied to a slight reduction in the tax rate. The tax is directly related to the educational area it benefits.

Cons: Would require voter approval.   Would create further earmarking and less budget flexibility for state. Ballot effort would likely receive strong opposition from impacted industries. Deals only with a narrow area of the higher education dedicated funding dilemma.

Scenario 4 – Expansion of Sales Tax Base to Services

Legislative Council estimates $550 million would be raised from expanding the number of services that would be subject to the state’s 2.9% sales tax. This amount is roughly the amount of state support provided to the governing boards, local district colleges, and area vocational schools in FY05-06. This revenue could be earmarked for higher education funding, possibly offsetting further reductions.

Pros: Might be more palatable to voters than a property, or income tax rate increase, especially if tied to a small reduction in the overall sales tax rate. A significant, dedicated funding source for higher education could be used to create a realistic incentive for outcome-based performance

Cons: Would require voter approval. Could create further earmarking and less budget flexibility for state. Ballot effort would likely receive strong opposition from impacted industries.

Scenario 5 – Severance Tax and Federal Mineral Lease (FML)

Colorado has severance tax rate that is lower than neighboring states and also allows a tax credit for oil and gas producers to deduct 87.5 percent of their previous year's property taxes from their severance tax payments. This makes Colorado's effective severance tax rate 5.7% while New Mexico is 9.4%, Oklahoma is 7% and Wyoming is 11.25%. Since 2008, Colorado Higher Education Institutions have received benefits from "spillover" Federal Mineral Lease revenues for 12 Capital Construction projects and some controlled maintenance on higher education facilities. Current revenue projections don't anticipate significant additional assistance from this source in the coming years.

In 2008, a ballot measure, Amendment 58 proposed ending approximately $321 million in tax credits from severance sources. The proposal would have dedicated about 60% of the new revenues to scholarships for low and middle income Colorado students. The proposal was defeated 58% -42% at the polls.

There is any number of reasons that Amendment 58 was defeated. One of them may have been because it did not link the revenue source to the beneficiary of the revenues adequately. Rural higher education institutions receive a relatively greater share of state support and are typically less able to sustain operations though tuition increases or proposed increases to property tax. Most of the gas, oil, coal and mineral extraction occur in the western half of the state and part of the purpose of the severance tax is to help those communities deal with the additional costs and impacts that come with this industry.

Proposal: utilize a portion of existing or enhanced severance or FML revenue to offset the cost of operating higher education institutions in communities in the western part of the state or the area where the extraction takes place (i.e. Weld County).

Pros: Colorado has a relatively low severance tax rate and this may allow for enhanced revenues from this source without significant impacts on the industry. Despite fluctuations in price and extraction, there are considered to be ample resources for the foreseeable future. Funding fluctuations could be mitigated by using a severance trust fund to be built up over time.

Cons: Amendment 58 was soundly defeated only a couple years ago and that defeat is still fresh in voters' minds. Energy prices and extraction fluctuate significantly from year to year – there is no guaranteed "base" of funding.