Summary of Possible Revenue Streams to Fund Higher Education

Prepared for the Higher Education Strategic Planning – Sustainability Subcommittee
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At the June 21, 2010 meeting of the Sustainability Subcommittee, staff was asked to compile a list of the various possible sources of new revenue for Colorado higher education along with the rationale for each source. At prior meetings, these options have been presented in various combinations equaling about $760 million. These options are now separately listed below and in no particular order.

Restore income and sales tax rates to 5.0% and 3.0%, respectively	$445 million
Expand sales tax to specific services	$550 million
Implement 1.0% surcharge on extraction	$150 million
Implement a 4.0 Mill levy statewide	$350 million
Implement a 4.0 Mill levy in counties where an institution of higher education is located	$240 million

- **Restore income and sales tax rates to 5.0% and 3.0%, respectively**

The income and sales tax rates were reduced during the strong economy of the late 1990s when it was believed TABOR refunds would continue along with strong economic growth. The income tax rate was reduced from 5.0% to 4.75% then to its current rate of 4.63%, while the sales tax rate was reduced to 2.9% from 3.0%. It is estimated that the restoration of these rates would provide $445 million in new revenue that could be earmarked for higher education. The restoration of these rates would require voter approval; however, the restoration of a prior tax rate might be more sellable to the public than an increase of another tax rate or an increase of the income or sales tax rate in excess of 5.0% or 3.0%. Restoring both of these rates concurrently would presumably create a less volatile revenue stream than increasing the rate for either income or sales individually.

- **Expand sales tax to specific services**

A Legislative Council analysis estimates that expanding the sales tax base to include services in addition to the goods that are primarily taxed currently would raise an additional $550 million at the existing rate of 2.9%. A proposal could be presented to voters to expand the base of services taxed coupled with a reduction in the overall rate. The main rationale for expanding the sales tax base to services is because services make up a larger percentage of what people purchase in today's economy, compared to 30 – 40 years ago. Further, by not taxing services, a somewhat regressive disparity is created where a luxury service is not taxed, but the corresponding good is taxed. For example, a cleaning service is not subject to the sales tax, but the purchase of a vacuum cleaner is subject to the sales tax. Combining the expansion of the sales tax base with a reduction in the overall rate may also be more appealing to voters.

- **Implement 1.0% surcharge on extraction**

As an alternative to increasing the severance tax rate or eliminating the property tax deduction that corresponds with severance taxes, a 1.0% surcharge on extraction could generate about $150 million. This approach differs from Amendment 58, the 2008 failed ballot measure which proposed eliminating the property tax deduction and primarily putting the new revenue into a scholarship fund. The implementation of a 1.0% surcharge would equally impact extraction throughout the state, whereas increasing the overall rate or eliminating the property tax deduction does not.

- **Implement a 4.0 Mill levy statewide**

A state wide 4.0 Mill increase would generate about $350 million. This approach would require voter approval at the state level and is a recognition that the entire state benefits economically from higher education institutions.

- **Implement a 4.0 Mill levy in counties where an institution of higher education is located**

Doing so would generate about $240 million for higher education. This approach would require local approval of the mill levy increases and would indicate that local communities have "skin in the game." This approach recognizes the economic impact that institutions have regionally and could be coupled with a tiered state funding match that acknowledges the differing abilities of counties to generate revenue from property taxes.