

Proposition II Analysis

Introduction

Earlier this year, the State Legislature voted to refer Proposition II to the voters on the November ballot.

The measure seeks voter approval to allow state government to retain excess funds generated by Proposition EE, a tobacco and nicotine tax approved by voters in 2020. If Proposition II is approved, the estimated \$23.65 million in excess revenue would benefit Colorado's Universal Preschool Program (UPK).ⁱ

Proposition II

Proposition II was born as a result of Colorado's Taxpayer Bill of Rights (TABOR) which among other items, stipulates that any excess revenue generated beyond projections must be approved by voters before it can be retained and spent by the state.

If approved, II would allow the state to keep and spend the estimated \$23.65 million in excess tax revenue already collected in FY2021-22 from Proposition EE, as well as maintain the tobacco and nicotine tax rates currently imposed. In addition, a yes vote would allow the state to continue to retain and spend this annual overage, with all funds allocated to the state's UPK program.

A no vote on Proposition II would refund the projected \$23.65 million to various tobacco and nicotine wholesalers and distributors. The tobacco and nicotine tax rate created by Proposition EE would be reduced by 11.53% to ensure future collections do not exceed projections.

Despite not paying for the tax increase directly, tobacco/nicotine distributors and wholesalers stand to gain from Prop II failing. The estimated \$23.65 million would be distributed back to them in its entirety rather than be retained by the state. This rebate has yet to be decided and may take the form of direct payments, tax rebates, or another form.

Universal Preschool

Colorado's Universal Preschool program was created with HB22-1295 and is administered by Colorado's Department of Early Childhood (CDEC). CDEC officially launched the program before the 2023/24 school year offering either 10 or 15 hours of free preschool per week to every child in the year before they are eligible for kindergarten. Children with qualifying conditions such as poverty, dual language learning, and other barriers are also eligible for up to 30 hours of free preschool.ⁱⁱ If Prop II passes, the projected \$23.65 million would allow roughly 5,100 more kids to access additional preschool programs this year.ⁱⁱⁱ

Pre-K programs have been proven to induce a number of positive outcomes with enrolled children, especially those who are disadvantaged.^{iv} Data shows that participation in a Pre-K program leads to higher high school graduation rates, higher college enrollment rates, and other social benefits such as lower incarceration and drug abuse rates.^v Access to high quality preschool also has benefits to Colorado's labor force participation by supporting working parents.

Proposition EE

Proposition EE was originally passed by Colorado voters in 2020, gradually increasing the total tax rate of tobacco and nicotine products from 40% before the measure passed, to 62% by July 1, 2027.^{vi} Additionally, the measure placed vaping devices and fuel under the measure's tax jurisdiction. Nicotine products were not previously subject to general tobacco taxes.

The measure was projected to generate \$186.5 million in its first full fiscal year, FY2021-22. Instead, revenue outpaced these projections and the tax netted \$208 million in its first year. With interest, this leaves roughly \$23.65 million in excess revenue.^{vii}

Proposition EE's funds were allocated to be spent on a number of programs in its first three years including rural schools, housing programs, and K-12 education. Beginning in FY2023-24, an estimated 92% of the funds will be allocated to fund Colorado's UPK program with a similar amount allocated to UPK in each of the following years.^{viii}

i. initiative%20referendum_prop ii final lc packet.pdf (colorado.gov)
ii. UPK-State-FAQ-edited-and-branded-215.23.pdf (jointinitiatives.org)
iii. initiative%20referendum_prop ii final lc packet.pdf (colorado.gov)
iv. Research Summary: The Lifecycle Benefits of an Influential Early Childhood Program - The Heckman Equation
v. The Case For Universal Pre-K Just Got Stronger : Planet Money : NPR
vi. Proposition EE explained: How much more cigarettes, nicotine products would cost in Colorado - The Colorado Sun
vii. initiative%20referendum_prop ii final lc packet.pdf (colorado.gov)
viii. C:\HB1427_fl.txt (colorado.gov)