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HB 18-1171

**REVISED
FISCAL NOTE**

(replaces fiscal note dated February 6, 2018)

Drafting Number: LLS 18-0979
Prime Sponsors: Rep. Hamner
Sen. Lundberg

Date: February 13, 2018
Bill Status: Senate Appropriations
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Bill Topic: SCHOOL FINANCE MID-YEAR ADJUSTMENT TO FUNDING

Summary of Fiscal Impact:

| | |
|---|---|
| <input type="checkbox"/> State Revenue | <input type="checkbox"/> TABOR Refund |
| <input checked="" type="checkbox"/> State Expenditure | <input checked="" type="checkbox"/> School District |
| <input type="checkbox"/> State Transfer | <input type="checkbox"/> Statutory Public Entity |

This bill makes mid-year adjustments to the 2017 School Finance Act in order to maintain the statewide average per pupil funding at the level anticipated in the original appropriation.

Appropriation Summary: For FY 2017-18, the bill requires both a cash fund appropriation reduction of \$84,034,372 from the State Education Fund and a cash fund appropriation reduction of \$12,866,074 from the State Public School Fund for the state share of total program. It also requires a cash fund appropriation of \$4,056 from the State Education Fund for hold-harmless full-day kindergarten. For FY 2018-19, the bill requires a General Fund appropriation of \$12,917,463 to the Department of Education.

Fiscal Note Status: This fiscal note reflects the bill, as recommended by the Joint Budget Committee and amended on House 2nd Reading.

**Table 1
State Fiscal Impacts Under HB 18-1171**

| | | FY 2017-18 | FY 2018-19 | FY 2019-20 |
|---------------------|--------------------------|----------------|--------------|------------|
| Revenue | Total | - | - | - |
| Expenditures | General Fund | | \$12,917,463 | |
| | State Public School Fund | (\$12,866,074) | | |
| | State Education Fund | (\$84,030,316) | | |
| | Total | (\$96,896,320) | \$12,917,463 | - |
| Transfers | Total | - | - | - |

Summary of Legislation

This bill makes mid-year adjustments to the 2017 School Finance Act necessary to maintain total program funding after application of the budget stabilization factor at the level anticipated by the original appropriation, based on the October 2017 student count and the 2017 certified property values. The reduction in both students and at-risk students reduces total program funding before application of the budget stabilization factor by \$12.9 million, while local revenue available to support school finance is \$96.9 million higher than anticipated. Maintaining the existing total program funding at a constant level allows for the reduction of the budget stabilization factor by \$12.9 million in FY 2017-18 and FY 2018-19. These adjustments increase the statewide average per pupil funding after application of the budget stabilization factor by \$8 to \$7,670 in FY 2017-18.

Background

At the time that the Long Bill appropriation for school finance is established, many data are unknown. The initial appropriation is based on forecasts of the funded pupil counts, the number of at-risk students, and property tax revenue. Subsequently, school districts conduct a student count in October, county assessors and the State Board of Equalization certify the total valuation for assessment of all taxable property, and school district boards certify the district's mill levy for school finance. By early January within the fiscal year, these data are finalized by school districts and compiled by the Colorado Department of Education (CDE). CDE annually submits a supplemental request to make mid-year appropriation adjustments based on actual data.

For FY 2017-18, the funded pupil count decreased by 918 compared with the forecasted enrollment. In addition, the at-risk student count was 6,993 lower than projected. These two impacts decreased overall school finance funding by \$12.9 million. In addition, actual local property tax revenue in 2017 was \$91.3 million higher than the estimates that were used for the initial appropriation last spring, and actual specific ownership tax revenue came in \$5.6 million higher than forecast. Thus, the overall local share for total program increased by \$96.9 million. Table 2 details these adjustments.

Table 2
Changes in Pupil Count and Local Tax Revenue

| | FY 2017-18 (initial) | FY 2017-18 (actual) | Mid-Year Change |
|--|---------------------------------|--------------------------------|----------------------------|
| Funded Pupil Count | 865,935 | 865,017 | (918) |
| At-Risk Pupil Count | 309,646 | 302,653 | (6,993) |
| Local Share of Total Program (Million \$) | \$2,409.9 | \$2,506.8 | \$96.9 |
| Property Tax (Million \$) | \$2,237.2 | \$2,328.5 | \$91.3 |
| Specific Ownership Tax (Million \$) | \$172.7 | \$178.3 | \$5.6 |

State Expenditures

School Finance. This bill makes mid-year adjustments to school finance-related appropriations for FY 2017-18, reducing the state share of total program by \$96.9 million and the budget stabilization factor by \$12.9 million from the level anticipated by the original appropriation. The cost of total program funding prior to the application of the budget stabilization factor declined \$12.9 million due to lower than anticipated student and at-risk student counts. Because local tax revenue for school finance came in higher than was projected last spring, money available for the local share is \$96.9 million more than anticipated. As a result, maintaining total program funding after application of the budget stabilization factor at the level of the original appropriation allows these reductions to both the state share of total program and the budget stabilization factor. Table 3 details mid-year adjustments to the FY 2017-18 appropriations for school finance.

**Table 3
Adjustments to FY 2017-18 Appropriations for School Finance**

| | Initial Appropriation | Mid-Year Adjustment | Adjusted Appropriation |
|--------------------------------------|----------------------------------|--------------------------------|-----------------------------------|
| Total Program Funding | \$7,463,231,556 | (\$12,917,463) | \$7,450,314,093 |
| Local Share of Total Program Funding | \$2,409,944,058 | \$96,900,446 | \$2,506,844,504 |
| State Share of Total Program | \$4,225,007,024 | (\$96,900,446) | \$4,128,106,578 |
| Budget Stabilization Factor | (\$828,280,474) | (\$12,917,463) | (\$815,363,011) |
| Adjusted Total Program Funding | \$6,634,951,082 | \$0 | \$6,634,951,082 |

It should be noted that the statutory total program funding floor is not the same as the actual total program funding that appears in Table 2 above. The statutory total program funding floor (\$6,634,762,487 in FY 2017-18 under the amended bill) serves as a starting point for calculating the budget stabilization factor. The actual total program funding after application of the budget stabilization factor will be \$6,634,951,082, which is \$188,595 higher than the funding floor. The difference is the amount of the budget stabilization factor reduction attributable to the one school district that is fully locally funded, and is thus not impacted by the budget stabilization factor in FY 2017-18.

Budget Stabilization Factor. The bill reduces the budget stabilization factor from 11.12 percent to 10.94 percent, or a total of \$12.9 million across all school districts in both FY 2017-18 and FY 2018-19. This reduction is possible due to the lower-than-expected student counts and at-risk student counts and the decision to maintain total program funding after application of the budget stabilization factor at the level of the initial appropriation in FY 2017-18.

Hold-Harmless Funding. The bill increases hold-harmless funding by \$4,056 in FY 2017-18 to align with the change in the funded pupil count and the reduction in the budget stabilization factor.

School District Impact

Under this bill, school districts will receive the same statewide total program funding amount for school finance in FY 2017-18 as was originally appropriated, although the funding for individual districts will vary, depending on changes in pupil counts and local share. The \$12.9 million reduction in the overall cost of total program is more than offset by a \$96.9 million increase in the local share, allowing a \$12.9 million reduction in the budget stabilization factor.

Effective Date

The bill takes effect upon signature of the Governor, or upon becoming law without his signature.

State Appropriations

For FY 2017-18, this bill requires:

- a cash fund appropriation reduction of \$84,034,372 from the State Education Fund for the state share of total program;
- a cash fund appropriation reduction of \$12,866,074 from the State Public School Fund for the state share of total program; and
- a cash fund appropriation of \$4,056 for hold-harmless full-day kindergarten from the State Education Fund.

For FY 2018-19, this bill increases the state share of total program funding by \$12,917,463. The appropriation will be contained in the 2018 Long Bill.

State and Local Government Contacts

Education

Joint Budget Committee Staff