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FINAL FISCAL NOTE

Drafting Number: LLS 20-0659 Date: September 2, 2020
Prime Sponsors: Sen. Danielson; Garcia Bill Status: Deemed Lost
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Bill Topic: EDUCATOR PAY RAISE FUND

- Summary of Fiscal Impact: State Revenue, TABOR Refund, State Expenditure, School District, State Diversion, Statutory Public Entity

The bill would have created the Educator Pay Raise program in the Colorado Department of Education. The bill would have diverted school land trust revenue to the program, and increased state expenditures on an ongoing basis.

Appropriation Summary: In FY 2020-21, the bill would have required an appropriation of \$15.0 million to the Colorado Department of Education.

Fiscal Note Status: This fiscal note reflects the introduced bill. The bill was not enacted into law; therefore, the impacts identified in this fiscal note do not take effect

Table 1 State Fiscal Impacts Under SB 20-089

Table with 4 columns: Category, Sub-category, FY 2020-21, FY 2021-22. Rows include Revenue, Expenditures (Cash Funds, Centrally Appropriated, Total), Total FTE, Diversions (Public School Permanent Fund, Cash Fund, Total), and TABOR Refund.

## **Summary of Legislation**

The bill creates the Educator Pay Raise Program in the Colorado Department of Education (CDE) to provide financial support to school districts and charter schools (participants) to increase their minimum annual teacher salary to \$40,000 and their minimum hourly employee wage to \$15 per hour. Beginning in FY 2021-22, the minimum salary and wage is adjusted by the district's cost of living factor normalized to the factor for the district with the lowest cost of living in the state, multiplied by inflation.

**Definitions.** Teachers are defined as individuals employed to instruct or direct instructional programs or provide school nursing services, and who hold either a teacher's license or special services license. Principals and administrators are not eligible. Hourly employees include individuals providing paraprofessional, clerical, custodial, maintenance, food, transportation, technical, skilled trade, security, health, or student services.

**Administration.** Beginning in FY 2020-21, the State Board of Education (SBE) must annually select participating districts and charter schools. The bill specifies the information that must be included in applications, including an indication of whether the participant intends to raise the minimum salary for teachers, wages for employees, or both. If the applicant is subject to a collective bargaining agreement, the applicant must work with educator representatives and demonstrate that the representatives agree with the plans in the application. CDE must prioritize districts and charter schools that demonstrate the greatest financial need, based on certain indicators.

**Financial support.** In the first year a participant receives a grant, they receive the full amount required to increase the salary and/or wages to the minimum level for all teachers or employees who make less than that amount. In subsequent years, CDE must adjust the amount paid to participants based on a contribution schedule established by the SBE. The contribution schedule must be based on certain factors listed in the bill, including the participant's financial situation and ability to contribute. The participant is expected to increase its contribution over time, until the salaries and/or wages are fully paid by the participant.

The participant is no longer eligible when CDE determines that there is sufficient local revenue to fully fund the minimum salary and/or wage. Districts and charter schools may continue to participate in the program without reapplying as long as they continue to meet contribution requirements, or are no longer eligible.

**Funding sources.** The program is funded with public school lands income. Beginning in FY 2020-21, the greater of 10 percent of the gross amount of public school lands income, or \$15.0 million, is annually credited to the newly created Educator Pay Raise Fund.

**Reporting.** Beginning in the 2022 legislative session, CDE must include a report on the program in their SMART Act hearing report.

## **Background**

Under current law, revenue from public lands in the Public School Trust is allocated as follows:

- the greater of 50 percent, or \$40.0 million, is distributed to the Building Excellent Schools Today (BEST) program;

- an amount is allocated to the State Land Board to cover operational costs and asset maintenance; and
- any excess revenue is deposited in the Public School Permanent.

Investment and income earned on the Permanent Fund is deposited in the State Public School Fund and used for the state share of school finance and other uses related to education.

### **State Diversions**

Beginning in FY 2020-21, the bill diverts \$15.0 million of revenue from public school lands to the Educator Pay Raise Fund. The diverted revenue would have otherwise gone into the Permanent Fund. The bill specifies that the amount diverted is the greater of \$15.0 million or 10 percent of gross public school land revenue. Based on actual FY 2018-19 revenue of \$149.5 million, 10 percent equates to \$14.95 million; as a result, \$15.0 million will be diverted. Table 2 compares distributions in FY 2018-19, the most recent year available, and those estimated under the bill.

**Table 2**  
**Distributions of Public School Lands Revenue**

<b>Purpose</b>	<b>Actual FY 2018-19</b>	<b>Estimated FY 2020-21 <i>Under SB 20-089</i></b>
BEST Program	\$74.2 million	\$74.2 million
State Land Board Operations and Asset Management	\$8.5 million	\$8.5 million
Permanent Fund	\$66.8 million	\$51.8 million
Educator Pay Raise Fund	-	\$15.0 million
<b>Total Revenue</b>	<b>\$149.5 million</b>	<b>\$149.5 million</b>

### **State Expenditures**

The bill increases state expenditures by \$15.0 million annually beginning in FY 2020-21. Costs are paid from the Educator Pay Raise Fund, are listed in Table 3 and discussed below.

**Table 3  
Expenditures Under SB 20-086**

	<b>FY 2020-21</b>	<b>FY 2021-22</b>
<b>Department of Education</b>		
Personal Services	\$156,150	\$131,152
Operating Expenses	\$2,565	\$2,160
Capital Outlay Costs	\$12,400	-
Grants to Districts and Charter Schools	\$14,828,885	\$14,866,688
Centrally Appropriated Costs*	\$30,406	\$25,573
FTE – Personal Services	1.9 FTE	1.6 FTE
<b>Total Cost</b>	<b>\$15,030,406</b>	<b>\$15,025,573</b>
<b>Total FTE</b>	<b>1.9 FTE</b>	<b>1.6 FTE</b>

\* Centrally appropriated costs are not included in the bill's appropriation.

**CDE - administration.** In FY 2020-21, CDE requires 1.9 FTE to implement the program. Staff includes 1.7 FTE to conduct rulemaking, establish application and grant procedures, develop the pay structure and contribution schedules, and provide outreach and assistance for applicants; and 0.2 FTE for the grants fiscal and competitive grants divisions to support application, contract, and payment processes. In FY 2021-22 and subsequent years, the required FTE drops to 1.6 FTE for ongoing program administration.

In FY 2020-21, CDE will also require a minimal increase in legal services, provided by the Department of Law, to support rulemaking associated with establishing the program. This amount can be accomplished within CDE's current allotment of legal services, and no change in appropriations is required.

**CDE - funding to school districts and charter schools.** After administrative expenses, about \$14.8 million in the first year and \$14.9 million in subsequent years will be available for distribution to school districts and charter school. It is not known how many eligible districts or charter schools will participate in the program; if 25 percent apply, there will be about 109 applications. Actual award amounts will be based on the number who are approved for a grant, the minimum salary in those districts or charter schools, and the number of teachers or employees who currently earn the minimum salary or wage. In future years, the adjustment based on a district's cost of living factor will raise the minimum salary and wage, and the contribution schedule established by CDE will impact the amount distributed to participants who are receiving funding in a two or more consecutive years.

**Expenditure of public school land revenue.** Changing where public school land revenue is allocated may impact state expenditures in future years. By reducing the amount deposited in the Permanent Fund, the amount of investment income available to be spent from that fund will decrease. In addition, should the revenue generated by the Public School Trust fall below \$63.5 million (\$15.0 million for educator pay raise program, \$40.0 million for BEST, \$8.5 million for operations) in future years, the State Land Board may not have sufficient revenue to cover operating costs. Should this occur, it will be handled through the annual budget process.

**Centrally appropriated costs.** Pursuant to a Joint Budget Committee policy, certain costs associated with this bill are addressed through the annual budget process and centrally appropriated in the Long Bill or supplemental appropriations bills, rather than in this bill. These costs, which include employee insurance and supplemental employee retirement payments, are estimated to be \$30,406 in FY 2020-21 and \$25,573 in FY 2021-22.

### **School District**

The bill increases revenue and expenditures for participating school districts. Any district that receives a state grant commits to increasing its minimum teacher salary and/or its minimum hourly wage to the level established by the bill. In the first year of participation, districts receive the full amount needed to increase the minimum salary and wages; in subsequent years, districts must contribute funding, based on contribution schedules set by CDE. The district contribution is expected to increase over time, until the salaries and/or wages are fully paid by the district. Specific costs for participating districts will vary based on their current minimum salary or wages, the number of teachers and employees, as well as the amount of state grants received and the district's relative cost of living factor.

### **Effective Date**

The bill was deemed lost on June 16, 2020.

### **State Appropriations**

In FY 2020-21, the bill requires an appropriation of \$15.0 million from the Educator Pay Raise Fund to the Colorado Department of Education, and 1.9 FTE.

### **State and Local Government Contacts**

Education

Law

Natural Resources

School Districts