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Fiscal Note

Drafting Number:	LLS 22-0497	Date:	February 15, 2022
Prime Sponsors:	Sen. Lundeen; Kirkmeyer	Bill Status:	Senate Education
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Bill Topic: **FUNDING FOR EDUCATIONAL OPPORTUNITIES**

Summary of Fiscal Impact:	<input type="checkbox"/> State Revenue	<input type="checkbox"/> TABOR Refund
	<input checked="" type="checkbox"/> State Expenditure	<input type="checkbox"/> Local Government
	<input checked="" type="checkbox"/> State Transfer	<input checked="" type="checkbox"/> School District

The bill repeals the budget stabilization factor and establishes the Hope Scholarship Program to assist students with certain educational expenses. The bill makes a one-time state transfer, increases state expenditures, and reduces revenue to school districts on an ongoing basis.

Appropriation Summary: For FY 2022-23, the bill requires an appropriation of \$37,564 to the Colorado Department of Education.

Fiscal Note Status: The fiscal note reflects the introduced bill.

Table 1
State Fiscal Impacts Under SB 22-039

		Budget Year FY 2022-23	Out Year FY 2023-24
Revenue		-	-
Expenditures	General Fund	\$37,564	-
	General Fund – School Finance ¹	-	\$503,267,250
	Total Expenditures	\$37,564	\$503,267,250
	Total FTE	0.1 FTE	-
Transfers	General Fund	(\$723.8 million)	-
	State Education Fund	\$723.8 million	-
	Net Transfer	\$0	-
Other Budget Impacts	General Fund Reserve ¹	\$5,635	\$75,490,088

¹ Expenditures for school finance may be from General Fund or State Education Fund. Expenditures from the State Education Fund do not impact the General Fund Reserve.

Summary of Legislation

School finance. The bill repeals the budget stabilization factor beginning in FY 2023-24, and transfers \$723.8 million from the General Fund to the State Education Fund (SEF) in FY 2022-23.

Hope Scholarship Program. The bill creates the Hope Scholarship Program to assist with certain educational expenses, including:

- tuition or fees at a nonpublic school in Colorado; or
- costs or fees for home-based educational programs, tutoring, academic assessments, enrichment programs, and other educational programs.

To be eligible, a student must be a resident of Colorado, and at the time of application:

- be enrolled in a public school for at least 45 days per semester, and remain enrolled until an award letter is issued;
- was enrolled full-time in a public school for the year prior to the application; or
- be eligible to enroll in kindergarten at a public school in Colorado.

If the number of students participating in the program on July 1, 2024 is less than five percent of the total number of students enrolled in public schools during the prior year, then beginning July 1, 2026, any student eligible to enroll in public school can apply for the program.

Administration. The Colorado Department of Education (CDE) must contract with an outside organization with demonstrated success in administering financial accounts (administering entity) to administer the program no later than February 1, 2023. The administering entity may retain up to 5 percent of the transfer amounts it receives from CDE for each student to administer the program, and the contract may not include any additional remuneration.

The administering entity must establish an application process, to be available by March 1, 2023, maintain and oversee an account for each eligible student. Parents may spend money from the student's account for eligible expenses. The entity must require parents to agree to program requirements and guidelines, and annually audit a representative sample of parents to ensure that money is spent for allowable uses. The administering entity must commence legal action to recover any amount illegally spent.

Transfer amounts. For each participating student, CDE must transfer to the administering entity an amount equal to the lesser of 125 percent of the statewide average state share of per pupil revenues for the prior budget year, or the state of per pupil revenues in the student's district of residence. The amount is transferred from the state share that the student's district of residence would have otherwise received, and prorated based on the time remaining in the budget year.

If the amount transferred for an eligible student is less than 125 percent of the statewide average state share of per pupil revenues, CDE must transfer an additional amount so that each student receives 125 percent of statewide average share of per pupil revenues. The General Assembly must annually appropriate an amount to fund these transfers.

Background

The budget stabilization factor, formerly known as the negative factor, was adopted in 2010 by the state legislature to reduce the state share of school finance in order to stabilize the state budget. With a few exceptions, it reduces total funding proportionately across districts. In the current FY 2021-22, the budget stabilization factor is expected to reduce state funding for most districts by 5.93 percent, or \$503 million.

Assumptions

Budget stabilization factor. This fiscal note assumes the passage of House Bill 22-1186, the FY 2021-22 midyear adjustment bill for school finance and that the resulting budget stabilization factor of \$503.3 million would remain constant at this level through FY 2023-24.

Hope scholarship program. The fiscal note assumes that 8,808 students will participate in the program. The estimate for participating students reflects 1 percent of current student enrollment, and would represent a 15 percent increase relative to home-school and private school enrollment in FY 2021-22.

Additionally, there are 86 districts that are expected to have a state share per pupil in FY 2022-23 that is less than 125 percent of the statewide average. Should students participate in the program from one of these districts, the General Assembly must appropriate money to make up the gap between the district state share per pupil and 125 percent of the statewide average.

State Transfers

In FY 2022-23, the bill makes a one-time transfer of \$723.8 million from the General Fund to the State Education Fund.

State Expenditures

The bill increases state expenditures in CDE by \$37,564 in FY 2022-23 and \$503.3 million in FY 2023-24. Expenditures are assumed to be from the General Fund. Expenditures are shown in Table 2 and detailed below.

**Table 2
Expenditures Under SB 22-039**

	FY 2022-23	FY 2023-24
Department of Education		
RFP Cost	\$17,850	-
Legal Services	\$19,714	-
State Share of School Finance – BSF Repeal	-	\$503,267,250
State Share of School Finance – Hope Scholarships	-	(\$67,270,346)
Transfers to Admin Entity – Hope Scholarships	-	\$67,270,346
Total Cost	\$37,564	\$503,267,250
Total FTE - Legal Services	0.1 FTE	-

¹ Centrally appropriated costs are not included in the bill's appropriation.

School finance. By repealing the budget stabilization factor in FY 2023-24, the bill increases the state share of school finance on an ongoing basis. Assuming the FY 2023-24 budget stabilization factor remains constant at FY 2021-22 levels, the bill will increase the state share by the \$503.3 million. The actual increase in the state share will depend on what the actual budget stabilization factor is for FY 2023-24.

Colorado Department of Education. In FY 2022-23, CDE requires \$17,850 to issue a request for proposal to hire the administering entity. This reflects standard costs for the department for this purpose. In addition, CDE requires 200 hours of legal services to implement the program and contract with the administering entity. Legal services are provided at a rate of \$95.57 per hour by the Department of Law, which requires 0.1 FTE for this work.

Hope Scholarship Program. The bill requires that that CDE transfer an estimated \$67.3 million to the entity administering the scholarship program beginning in FY 2023-24. This amount is based on an assumed 8,808 participating students, and each participating student receiving \$7,637, which is 125 percent of the FY 2022-23 statewide average per pupil state share before the application of the budget stabilization factor.

State share for school districts. The \$67.3 million that is transferred to the administering entity also represents a decrease in the state share of total program that districts receive. To the extent that participating students are from the 86 districts with a per pupil state share that is less than 125 percent of the statewide average, the reduction in state share will be less than estimated. It is unknown how many students from these districts will participate. To the extent participation exceeds estimated levels, the reduction will be greater than anticipated.

Additional appropriations. Additional appropriations outside the state share of school finance will be required for participating students from these 86 districts in order to ensure that each student receives 125 percent of the statewide average state share per pupil in their account. Because it is unknown how many students from these districts will participate, the fiscal note assumes that an additional appropriation will occur through the budget process as necessary.

Administering entity. The bill allows the administering entity to retain up to 5 percent of the amount it annually receives from CDE for each account. This amount is estimated at \$382 per student, and an estimated \$3.4 million total. The fiscal note assumes that this will come out of the \$67.3 million transferred to the administering entity.

Future years. If total number of students participating in or applying for the program as of July 1, 2024 is less than 5 percent of the total number of full-time equivalent students enrolled public school in the previous school year, eligibility criteria for the program expands beginning in FY 2026-27 to include any student eligible to enroll in a public school. The assumptions in the fiscal note would result in expansion of the program beginning in FY 2026-27. The cost of the program and impact on the state share in future years has not been calculated.

Other Budget Impacts

General Fund reserve. Under current law, an amount equal to 15 percent of General Fund appropriations must be set aside in the General Fund statutory reserve beginning in FY 2022-23. Based on this fiscal note, the bill is expected to increase the amount of General Fund held in reserve by \$5,635 in FY 2022-23 and \$75.5 million in FY 2023-24, which will decrease the amount of General Fund available for other purposes. Should the increase in funding be appropriated from the State Education Fund, there will be no General Fund reserve impact in the second year.

School District

As discussed in the State Expenditures section, the bill will reduce the state share school finance that school districts will receive by an estimated \$67.3 million. To the extent that participating students are currently enrolled in the 86 districts with a per pupil state share that is less than 125 percent of the statewide average per pupil state share, the impact on the overall state share will be less than estimated. To the extent participation exceeds estimated levels, the reduction will be greater than anticipated. The actual impact on any individual district has not been calculated, as it will depend on participating students' district of residence.

Effective Date

The bill takes effect 90 days following adjournment of the General Assembly sine die, assuming no referendum petition is filed.

State Appropriations

In FY 2022-23, the bill requires an appropriation of \$37,564 to the Colorado Department of Education. Of this amount, \$19,174 is reappropriated to the Department of Law with 0.1 FTE.

State and Local Government Contacts

Education	Law	Personnel	School Districts
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