

MEMORANDUM

TO: Joint Budget Committee Members

FROM: Craig Harper, JBC Staff (303-866-3481)

SUBJECT: Department of Education: School Finance Fund Sources

DATE: March 23, 2016

Changes to revenue projections for the State Education Fund (SEF) and the State Public School Fund (SPSF) will require adjustments to the fund sources supporting the state share of districts' total program funding for FY 2016-17. The March 2016 Legislative Council Staff Revenue Forecast anticipates declines in both federal mineral lease (FML) revenues deposited to the SPSF and SEF revenues relative to the December 2015 revenue forecast used for figure setting.

Because of the decreased revenue expectations, maintaining the targeted ending balances in the SPSF (\$10.0 million) and the SEF (\$100.0 million) would require an increase of \$23.5 million General Fund for the state share of districts' total program funding for FY 2016-17 (above the amount approved at figure setting). The following table summarizes the changes necessary to maintain both of the targeted ending fund balances and support the total program appropriation necessary to maintain the negative factor as a constant dollar amount as required by current law.

Sources of Funds Appropriated for the State Share of Districts' Total Program				
Fund Source	FY 2015-16	FY 2016-17 Figure Setting	FY 2016-17 Revised	Change from Figure Setting
Cash Funds (State Public School Fund)	\$50,154,849	\$68,833,003	\$51,253,349	(\$17,579,654)
<i>Annual Percent Change</i>	<i>-49.3%</i>	<i>37.2%</i>	<i>2.2%</i>	
Cash Funds (State Education Fund)	630,328,949	473,174,119	467,289,119	(5,885,000)
<i>Annual Percent Change</i>	<i>-5.6%</i>	<i>-24.9%</i>	<i>-25.9%</i>	
General Fund	3,299,295,175	3,572,995,719	3,596,460,373	23,464,654
<i>Annual Percent Change</i>	<i>3.6%</i>	<i>8.3%</i>	<i>9.0%</i>	
Total State Funds	\$3,979,778,973	\$4,115,002,841	\$4,115,002,841	\$0
<i>Annual Percent Change</i>	<i>0.7%</i>	<i>3.4%</i>	<i>3.4%</i>	

Staff notes that given the magnitude of the increase in General Fund shown above (\$23.5 million), the Committee may wish to reconsider the targeted fund balances. For example, targeting a \$0 fund balance for the SPSF at the end of FY 2016-17 (rather than \$10.0 million) would reduce the necessary increase in General Fund by \$10.0 million, although it would increase the risk of needing a mid-year adjustment if FML revenues are lower than anticipated in the forecast. That said, targeting a balance of \$0 in the SPSF still requires the Committee to backfill \$7.6 million currently approved from the SPSF to avoid a negative fund balance. That backfill must come from either the General Fund or the SEF (which would further decrease the SEF balance). To the extent that the Committee wishes to reduce the General Fund impact in FY 2016-17, staff would recommend reducing the targeted fund balance of the SPSF rather than the SEF.

Staff offers four illustrative options for the Committee's consideration:

- *Option 1 – Maintain Targeted Fund Balances (\$23.5 million General Fund increase):* As shown in the table above, maintaining the targeted fund balances approved during figure setting (\$10.0 million for the State Public School Fund and \$100.0 million for the SEF) requires a General Fund increase of \$23.5 million relative to the appropriation approved during figure setting. The increase offsets reductions of \$17.6 million from the State Public School Fund and \$5.9 million from the SEF. Staff recommends this option if revenues allow through the balancing process.
- *Option 2 – Decrease Targeted SPSF Balance (at least \$13.5 million General Fund increase):* As discussed above, the Committee could reduce the targeted fund balance for the SPSF by as much as \$10.0 million, reducing the need for General Fund in FY 2016-17. Prior to FY 2015-16, when FML revenues tended to be more predictable, the General Assembly targeted a balance of \$0 for the SPSF. Reducing the targeted SPSF balance to \$0 and maintaining the targeted SEF balance at \$100 million would require a General Fund increase of \$13.5 million above the amount approved at figure setting (\$10.0 million less than “Option 1”).
- *Option 3 – Decrease Both Targeted Fund Balances (Impact Uncertain):* The Committee could elect to decrease the targeted SPSF balance to \$0 *and* decrease the targeted SEF balance below \$100 million. Doing so could avoid the need for additional General Fund or potentially even make additional General Fund available. However, doing so would also increase the risk associated with potential revenue forecast error regarding FML revenues (SPSF), income taxes (SEF and General Fund), other General Fund revenues, and the local share of school finance revenues. Because of those risks, staff recommends that the Committee avoid significant reductions to the targeted SEF balance if at all possible.
- *Option 4 – Reduce Other Appropriations (Impact Uncertain):* The Committee could reduce other appropriations (from the General Fund, SPSF, or SEF) to make funds available for total program and maintain the targeted fund balances.

Background - FY 2016-17 Figure Setting for School Finance

During figure setting for the Department of Education for FY 2016-17 (presented March 7, 2016), the Committee approved Long Bill funding amounts for the state share of districts' total program funding (school finance) targeting three basic parameters:

- *Constant Negative Factor* – Current law requires the Long Bill appropriation to maintain the negative factor as a constant dollar amount (\$830,702,393) in FY 2016-17. Based on current estimates of the local share of funding available for school finance in FY 2016-17, doing so requires a total state share appropriation of \$4,115,002,841. The total state share appropriation required remains unchanged by the March 2016 revenue forecast.
- *\$10 Million State Public School Fund Ending Balance* – Based on uncertainty regarding FML revenues, the figure setting recommendation targeted the following ending balances for the State Public School Fund: (1) \$8.8 million for FY 2015-16 as a result of mid-year

changes enacted in H.B. 16-1253 (Current Year Adjustments to School Finance); and (2) \$10.0 million for FY 2016-17. The recommendation was intended to buffer against anticipated declines in FML revenue projections. However, the March 2016 revenue forecast will require further reductions (between \$7.6 million and \$17.6 million, depending on the targeted fund balance) for FY 2016-17 (see the following table).

State Public School Fund Revenues and Expenditures: FY 2015-16 and FY 2016-17			
Description	FY 2016-17 Figure Setting/1	FY 2016-17 Revised/2	Change from Figure Setting
Beginning Fund Balance	\$8,797,643	\$2,316,640	(\$6,481,003)
Federal Mineral Lease Revenues	60,117,842	49,019,191	(11,098,651)
Estimated School District Audit Recoveries	2,000,000	2,000,000	0
Interest/ Investment Income on Permanent Fund	<u>21,000,000</u>	<u>21,000,000</u>	<u>0</u>
Total Projected Funds Available	\$91,915,485	\$74,335,831	(\$17,579,654)
State Match for School Lunch Program [pursuant to Section 22-54-123, C.R.S.]	2,472,644	2,472,644	0
At-risk Supplemental Aid [pursuant to Section 22-30.5-112.2, C.R.S.]	5,094,358	5,094,358	0
At-risk Per Pupil Additional Funding [pursuant to Section 22-54-136, C.R.S.]	5,000,000	5,000,000	0
Supplemental On-Line Education Programs [pursuant to Sections 22-2-130 and 22-5-119, C.R.S.]	480,000	480,000	0
Amount Required to Print Public School Laws [pursuant to Section 22-2-112 (1) (i), C.R.S.]	35,480	35,480	0
Subtotal: Expenditures for Purposes Other than School Finance Act	13,082,482	13,082,482	0
Appropriation for the State Share of Districts' Total Program Funding	\$68,833,003	\$51,253,349	(\$17,579,654)
Ending Fund Balance	\$10,000,000	\$10,000,000	\$0

1/ Reflects the beginning fund balance and revenues based on the December 2015 Legislative Council Staff Revenue Forecast that were used for figure setting.

2/ Reflects revenues from the March 2016 Legislative Council Staff Revenue Forecast.

- *\$100 Million State Education Fund Ending Balance* – Continuing a precedent from previous years, the recommendation targets a balance of \$100 million in the State Education Fund (SEF) at the end of FY 2016-17 to accommodate potential revenue forecast error. Based on the December 2015 Legislative Council Staff (LCS) Revenue Forecast and staff’s other recommendations for appropriations from the SEF, staff’s figure setting recommendation included \$473,174,119 from the SEF for total program funding in FY 2016-17. Based on a \$5.9 million decline in projected SEF revenues in the March 2016 LCS Revenue Forecast, the SEF appropriation for school finance would have to decrease by \$5.9 million (below the figure setting recommendation) to maintain a targeted balance of \$100 million as recommended by staff (see the table on the following page).

State Education Fund Revenues and Expenditures: FY 2015-16 and FY 2016-17			
Description	FY 2016-17 Figure Setting/1	FY 2016-17 Revised/2	Change from Figure Setting
Beginning Fund Balance	\$297,738,445	\$297,538,445	(\$200,000)
FPPA Repayment Pursuant to S.B. 13-234	25,321,079	25,321,079	0
General Fund Revenues Directed to SEF Pursuant to Amendment 23 /1	552,400,000	546,700,000	(5,700,000)
Interest Income /3	<u>4,326,725</u>	<u>4,326,725</u>	<u>0</u>
Total Projected Funds Available	\$879,786,249	\$873,886,249	(\$5,900,000)
Categorical Programs /4	147,750,329	147,750,329	0
Various Other Existing Programs and Functions /5	158,846,801	158,846,801	0
Subtotal: Expenditures for Purposes Other than School Finance Act	306,597,130	306,597,130	0
Appropriation for the State Share of Districts' Total Program Funding	\$473,174,119	\$467,289,119	(\$5,885,000)
Ending Fund Balance	\$100,015,000	\$100,000,000	(\$15,000)

1/ Reflects estimates included in LCS's December 2015 revenue forecast and appropriations approved by the Committee during figure setting.

2/ Reflects estimates from the March 2016 LCS revenue forecast and appropriations approved by the Committee during figure setting (with the exception of the total program appropriation).

3/ Amounts were estimated by Legislative Council Staff for figure setting.

4/ Assumes that the full increase in state funding required for FY 2016-17 will be appropriated from the SEF, as approved during figure setting.

5/ Assumes Committee-approved amounts for other appropriations, which primarily include: \$34.0 million transferred to the Early Literacy Fund; \$26.3 million for statewide assessments; \$27.5 million for non-categorical English language learner programs; \$20.0 million for charter school facilities; \$16.8 million for facility school funding; \$10.0 million for the School Counselor Corps Grant Program; \$7.9 million for hold-harmless full-day kindergarten; \$3.3 million for BOCES funding; \$3.0 million for the Quality Teacher Recruitment Program; \$2.8 million for the Early Literacy Assessment tool; and \$850,000 for the School Lunch Protection Program.