

# MEMORANDUM



## JOINT BUDGET COMMITTEE

TO Joint Budget Committee Members  
FROM Craig Harper, JBC Staff (303-866-3481)  
DATE March 16, 2020  
SUBJECT Staff Comeback - FY 2020-21 Long Bill Recommendations for School Finance

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The Committee took action on the Department of Education's FY 2020-21 budget request on March 2, 2020. However, the staff recommendation for the State Share of Districts' Total Program Funding was pending.

Since the figure setting discussion, Legislative Council Staff has certified new cost of living factors for FY 2020-21 and the Committee has received the March 2020 revenue forecasts. Based on that new information, this memorandum includes revised recommendations for total program *for both FY 2019-20 and FY 2020-21*. The following sections address the recommended changes and appropriations for each fiscal year. (Please note that the following discussion is based on the March 2020 Legislative Council Revenue Forecast (LCS March 2020 revenue forecast); selection of the Office of State Planning and Budgeting Forecast for balancing purposes would likely require adjustments to the staff recommendations discussed below.)

### FY 2019-20 LONG BILL SUPPLEMENTAL

For FY 2019-20, the Legislative Council Staff March 2020 Revenue Forecast reflects reductions to both *federal mineral lease* revenues (deposited to the State Public School Fund) and *income tax* revenues diverted to the State Education Fund relative to the December 2019 forecast.

- *Federal Mineral Lease/State Public School Fund*: Statute credits 48.3 percent of non-bonus federal mineral lease (FML) revenue to the State Public School Fund. Relative to the December 2019 forecast, the LCS March 2020 revenue forecast anticipates a \$27.2 million (25.2 percent) reduction in non-bonus FML revenues *for FY 2019-20*, reducing anticipated deposits to the State Public School Fund by \$13.1 million. In order to maintain the targeted ending balance of \$29.8 million at the end of FY 2019-20 (consisting of \$24.8 million in anticipated marijuana sales tax revenues collected in FY 2019-20 for appropriation in FY 2020-21 and a "buffer" of \$5.0 million to account for additional forecast error), this change requires a reduction of \$7,047,428 to appropriations from the State Public School Fund in FY 2019-20 (to be offset by an increase in General Fund).
- *State Education Fund*: The March 2020 revenue forecast also anticipates reductions in deposits of income tax revenues to the State Education Fund (a reduction of \$21.3 million or 3.1 percent below the December 2019 forecast for FY 2019-20). With adjustments to anticipated interest earnings, the reduction will reduce the anticipated ending balance of the State Education Fund from \$202.6 million based on the December 2019 revenue forecast to \$181.0 based on the March 2020 revenue forecast. That will reduce the amount available for appropriation *in FY 2020-21*. Staff is not recommending an adjustment to the State Education Fund appropriation for FY 2019-20 – but the Committee should be aware that the amount available for appropriation in FY 2020-21 will be lower than was anticipated during the briefing and figure setting discussions.

Based on the adjustments related to the State Public School Fund, staff recommends adjusting appropriations for the State Share of Districts' Total Program Funding for FY 2019-20 through a Long Bill supplemental. **Specifically, staff recommends increasing the General Fund**

**appropriation for this line item by \$7,047,428 to offset an identical reduction to the appropriation from the State Public School Fund.** The recommended adjustment will maintain the current level of total program funding (as adjusted in H.B. 20-1260) and the targeted ending balance in the State Public School Fund.

The following table reflects the current FY 2019-20 appropriation (as adjusted by H.B. 20-1260), as well as the recommended adjustments and final appropriation.

TABLE 1: FY 2019-20 LONG BILL SUPPLEMENTAL FOR TOTAL PROGRAM			
	CURRENT FY 2019-20 APPROPRIATION (INCLUDING H.B. 20-1260)	STAFF RECOMMENDED ADJUSTMENT (LONG BILL SUPPLEMENTAL)	RECOMMENDED FY 2019-20 APPROPRIATION
Funded Pupil Count	896,001	0	896,001
<b>Total Program Funding</b>			
Total Program before Budget Stab. Factor	\$8,178,375,722	\$0	\$8,178,375,722
Budget Stabilization Factor	(572,396,894)	0	(572,396,894)
<i>Budget Stabilization Factor as Percentage</i>	-7.00%	n/a	-7.00%
Adjusted Total Program	\$7,605,978,828	\$0	\$7,605,978,828
Statewide Average Per Pupil	\$8,489	n/a	\$8,489
<b>Local And State Shares</b>			
Local Share	<u>\$2,977,176,606</u>	<u>\$0</u>	<u>\$2,977,176,606</u>
Property Tax	2,776,034,750	0	2,776,034,750
Specific Ownership Tax	201,141,856	0	201,141,856
State Share	<u>\$4,628,802,222</u>	<u>\$0</u>	<u>\$4,628,802,222</u>
General Fund	4,166,423,114	7,047,428	4,173,470,542
Cash Funds (SEF)	393,550,471	0	393,550,471
Cash Funds (SPSF)	68,828,637	(7,047,428)	61,781,209

#### FY 2020-21 LONG BILL RECOMMENDATION FOR TOTAL PROGRAM

During figure setting, the Committee approved a framework to establish the FY 2020-21 Long Bill appropriation for the state share of districts' total program funding. That framework includes the following assumptions:

- *Budget Stabilization Factor:* Current law (as enacted in S.B. 19-246 (School Finance)) will not allow the budget stabilization factor to increase as a dollar amount from FY 2019-20 to FY 2020-21. Thus, the staff recommendation *for the Long Bill appropriation* holds the budget stabilization factor constant at \$572,396,894 in FY 2020-21. Staff assumes that any changes to that amount (upward or downward) will be enacted in the annual School Finance Bill.
- *State Education Fund Balance:* As discussed during the FY 2020-21 JBC Staff Budget Briefing process, the staff recommendation targets a year-end balance of \$150.0 million in the State Education Fund at the end of FY 2020-21 (\$2.2 million below the Governor's proposed target of \$152.2 million). The recommendation for total program funding incorporates the Committee-approved amounts for all other Long Bill appropriations from the State Education Fund. Thus, any additional spending from the State Education Fund (outside of the Long Bill) would decrease the fund balance below that target. Staff recognizes that the changes in the March 2020 revenue forecast may increase pressure to spend down the balance of the State Education Fund in FY 2020-21. However, based on the continuing uncertainty in the revenue forecasts (including both state and local revenues), staff recommends continuing to target a balance of \$150.0 million at the end of FY 2020-21.

- *State Public School Fund Balance:* Based on the volatility of two of the major revenue sources for the State Public School Fund (federal mineral lease revenues and marijuana taxes), the staff recommendation targets a fund balance of approximately \$31.4 million at the end of FY 2020-21. That targeted fund balance includes: (1) an estimated \$26.4 million in marijuana sales tax revenue expected to be deposited in the fund in FY 2020-21 and available for appropriation in FY 2021-22; and (2) a buffer of \$5.0 million to account for potential forecast error in FY 2020-21.
- *ASCENT Slots:* The staff recommendation includes 500 slots for the Accelerating Students Through Concurrent Enrollment (ASCENT) Program, with no change from the FY 2019-20 appropriation. Increasing the number of slots would increase the pupil count and increase the required appropriation (by \$7,951 per pupil). Conversely, decreasing the number of slots would decrease the pupil count and the necessary appropriation accordingly.

### CHANGING OUTLOOK

As the Committee is aware, the revenue outlook has shifted significantly since the FY 2020-21 briefing in December and again since figure setting on March 2, 2020.

- During the briefing for school finance, staff's projections indicated that maintaining a constant budget stabilization factor based on the assumptions outlined above (including the \$150.0 million ending balance in the State Education Fund) would have allowed the General Assembly to *reduce* the General Fund appropriation for total program by \$7.4 million below the original FY 2019-20 appropriation.
- As discussed below, in order to achieve those targets now, the General Assembly will have to *increase* the General Fund appropriation by \$79.8 million above the adjusted FY 2019-20 appropriation (as adjusted by H.B. 20-1260 and the Long Bill supplemental recommendation discussed above). The staff recommendation for FY 2020-21 represents an increase of \$95.9 million General Fund above the original (2019 Session) appropriation and \$103.3 million above the General Fund appropriation anticipated at the time of the briefing.

Three major factors are driving the increased need for General Fund appropriations relative to the assumptions used for the FY 2020-21 briefing document:

- *Total Program Cost:* The cost of total program before the budget stabilization factor is \$27.0 million higher than assumed during the briefing because of a slight increase in pupil counts as well as assumptions about at-risk counts and the various factors in the formula. In addition, the new cost of living factors (recently certified by Legislative Council Staff) increase the cost of total program by \$3.8 million for FY 2020-21.
- *State Education Fund Revenues:* At the time of the briefing, staff's projections indicated that the State Education Fund would end FY 2019-20 with a balance of \$209.4 million. However, the Legislative Council Staff March 2020 Revenue Forecast anticipates significantly lower deposits into the fund from income tax. As a result, staff currently projects that the fund will end FY 2019-20 with a balance of \$181.0 million, reducing the amount available for appropriation in FY 2020-21 by \$28.4 million.
- *Federal Mineral Lease/State Public School Fund:* The reductions to anticipated federal mineral lease revenues (discussed above relative to FY 2019-20) are also reducing the amount available in the State Public School Fund for FY 2020-21. Based on current data, the staff recommended appropriation from the State Public School Fund for FY 2020-21 is \$23.8 million lower than anticipated at the time of the briefing.

**FY 2020-21 STAFF RECOMMENDATION (LONG BILL)**

**Based on the framework outlined above and incorporating the March 2020 LCS Revenue Forecast as well as the new cost of living factors, staff recommends approving an appropriation of \$4,711,595,045 total funds for the State Share of Districts’ Total Program Funding line item in FY 2020-21.** The recommendation includes the following fund sources:

- **\$4,253,281,058 General Fund** (an increase of \$79.8 million above the FY 2019-20 appropriation (as adjusted by the Long Bill supplemental recommendation above) and \$38.5 million above the Governor’s request).
- **\$386,959,295 cash funds from the State Education Fund** (a decrease of \$6.6 million below the FY 2019-20 appropriation and \$73.0 million below the Governor’s request). The recommendation continues to assume a targeted balance of \$150.0 million at the end of FY 2020-21.
- **\$71,354,692 cash funds from the State Public School Fund** (an increase of \$9.6 million above the recommended appropriation for FY 2019-20 but a decrease of \$12.7 million below the Governor’s request based on projections of available revenues under the March 2020 revenue forecast).

The following table shows the components of the staff recommendation for FY 2020-21 assuming a constant budget stabilization factor and based on the framework discussed during figure setting. As shown in the table, maintaining the budget stabilization factor at \$572.4 million would increase projected statewide average per pupil funding from \$8,489 in FY 2019-20 to \$8,666 in FY 2020-21, an increase of \$177 per pupil (2.1 percent).

TABLE 2: FY 2020-21 TOTAL PROGRAM FUNDING LONG BILL				
	FY 2019-20 APPROPRIATION (INCLUDING STAFF RECOMMENDED ADJUSTMENT)	GOVERNOR'S REVISED (JANUARY 15) REQUEST (EXCLUDING CPP EXPANSION)	STAFF RECOMMENDATION (REVISED DATA AND CONSTANT BUDGET STAB. FACTOR)	CHANGE FROM GOVERNOR'S REVISED REQUEST
Funded Pupil Count	896,001	896,094	896,094	0
Inflation Rate	2.7%	1.9%	1.9%	0.0%
Statewide Base Per Pupil Funding	\$6,952	\$7,084	\$7,084	\$0
<b>Total Program Funding</b>				
Total Program before Budget Stab. Factor	\$8,178,375,722	\$8,333,734,614	\$8,337,954,143	\$4,219,529
Budget Stabilization Factor	(572,396,894)	(520,396,894)	(572,396,894)	(52,000,000)
<i>Budget Stabilization Factor as Percentage</i>	<i>-7.00%</i>	<i>-6.24%</i>	<i>-6.86%</i>	<i>-0.62%</i>
Adjusted Total Program	\$7,605,978,828	\$7,813,337,720	\$7,765,557,249	(\$47,780,471)
Statewide Average Per Pupil	\$8,489	\$8,719	\$8,666	(\$53)
<b>Local And State Shares</b>				
Local Share	<u>\$2,977,176,606</u>	<u>\$3,054,571,884</u>	<u>\$3,053,962,204</u>	<u>(\$609,680)</u>
Property Tax	2,776,034,750	2,846,779,854	2,846,170,174	(609,680)
Specific Ownership Tax	201,141,856	207,792,030	207,792,030	0
State Share	<u>\$4,628,802,222</u>	<u>\$4,758,765,836</u>	<u>\$4,711,595,045</u>	<u>(\$47,170,791)</u>
General Fund	4,173,470,542	4,214,766,622	4,253,281,058	38,514,436
Cash Funds (SEF)	393,550,471	459,996,808	386,959,295	(73,037,513)
Cash Funds (SPSF)	61,781,209	84,002,406	71,354,692	(12,647,714)
<b>Annual General Fund Increase</b>		<b>41,296,080</b>	<b>\$79,810,516</b>	<b>\$38,514,436</b>
Statutory Change Required		Yes	Yes	

**Staff requests permission to adjust the fund sources as necessary based on the Committee’s choice of revenue forecast and other Committee decisions affecting the balance of either the State Education Fund or the State Public School Fund.**

### OUTSTANDING QUESTIONS

As discussed above, staff has based the recommendation for total program funding on a series of assumptions, each of which is subject to change by Committee action. Looking toward the budget balancing process, staff recommends that the Committee consider the following questions (which may affect the appropriations and fund sources required in FY 2020-21).

- 1 Given apparent revenue challenges for FY 2020-21, is maintaining a constant budget stabilization factor feasible? Do the Committee and the General Assembly intend to reduce the value of the budget stabilization factor in FY 2020-21? Conversely, will revenue challenges require the General Assembly to increase the factor? The Governor has proposed a reduction of \$52.0 million below the staff recommendation (from \$572.4 million to \$520.4 million).
- 2 Does the Committee wish to set aside funds (General Fund or otherwise) for other purposes or legislation? The staff recommendation targets minimum fund balances for the two cash funds supporting total program funding. Setting aside additional cash funds would increase the need for General Fund to support school finance.
- 3 Does the Committee wish to reduce the targeted ending balance in the State Education Fund (below \$150.0 million)? As noted above, staff continues to recommend targeting \$150.0 million at the end of FY 2020-21, particularly based on the ongoing level of uncertainty in the revenue forecast (including the General Fund, the State Education Fund, and federal mineral lease revenues credited to the State Public School Fund). However, the Committee could choose to spend down the balance of the cash fund.
- 4 Does the Committee wish to maintain the appropriation of 500 ASCENT slots? The Committee could choose to add slots (for example, the FY 2017-18 appropriation included 600 slots) or reduce the number of slots, with an impact of \$7,951 per slot in either direction assuming the budget stabilization factor remains constant. In the current year, a total of 461.0 FTE students are participating in the ASCENT Program. The Department expects 97.5 slots to be carried forward from FY 2019-20 to FY 2020-21 (as allowed by S.B. 15-138), meaning that an appropriation of 500 *new* slots for FY 2020-21 would make a total of 597.5 slots available for the year.

### REQUEST R6 – CPP EXPANSION

During figure setting, the Committee tabled request R6 (CPP Expansion), which proposes an increase of \$27.6 million General Fund to add 6,515 half-day slots to the Colorado Preschool Program. The request requires separate (statutory) legislation to increase the number of preschool program slots.

As discussed during figure setting, staff recommends denying the request for appropriation *in the Long Bill* because the request requires separate legislation. In addition, given the changing (and apparently deteriorating) revenue expectations anticipated in the LCS March 2020 revenue forecast, staff is increasingly uncertain about the State's ability to afford the requested increase (without driving an

increase in the budget stabilization factor to make the funds available). The original staff figure setting write-up for request R6 is below.

### → R6 CPP EXPANSION [REQUIRES LEGISLATION]

*REQUEST:* The Governor’s Office is requesting an increase of \$27,627,017 General Fund to add 6,515 half-day slots to the Colorado Preschool Program (CPP), which is funded through the State Share of Districts’ Total Program Funding line item. The Governor’s Office estimates that the increase would allow the program to serve an additional 5,977 3- and 4-year old children through a combination of full- and half-day positions. The request represents a 22.2 percent increase above the existing authorization for 29,360 CPP slots, and the Governor’s Office estimates that the request would allow the CPP to serve approximately 50.0 percent of the students that would be eligible for the CPP (those meeting the risk factors specified in statute). The Committee should note that the number of CPP slots is specified in statute and this request requires separate legislation. The Governor’s Office is not requesting this as a JBC bill.

*RECOMMENDATION:* Staff recommends denying the request. As noted above, because the number of authorized CPP slots is specified in statute, the request requires separate legislation and is therefore not appropriate for inclusion in the Long Bill. Given the magnitude of the request, if the Committee intends to support funding for the request in FY 2020-21, then it may wish to account for the anticipated appropriations through a placeholder during the budget balancing process for the Long Bill.

#### *ANALYSIS:*

##### Background – Colorado Preschool Program (CPP)

The General Assembly created the CPP in 1988 to provide high quality early childhood education to at-risk children between 3 and 5 years of age free of charge. The General Assembly authorizes a specific number of half-day “slots” in the program, although districts may use a portion of the slots to provide a full-day program Statute (Sec. 22-28-106) specifies criteria that make a child eligible for the program, based on risk factors that are associated with later challenges in school. In order to qualify for the program, three-year old students must have at least three of the following family risk factors, while four-year old students must have at least one:

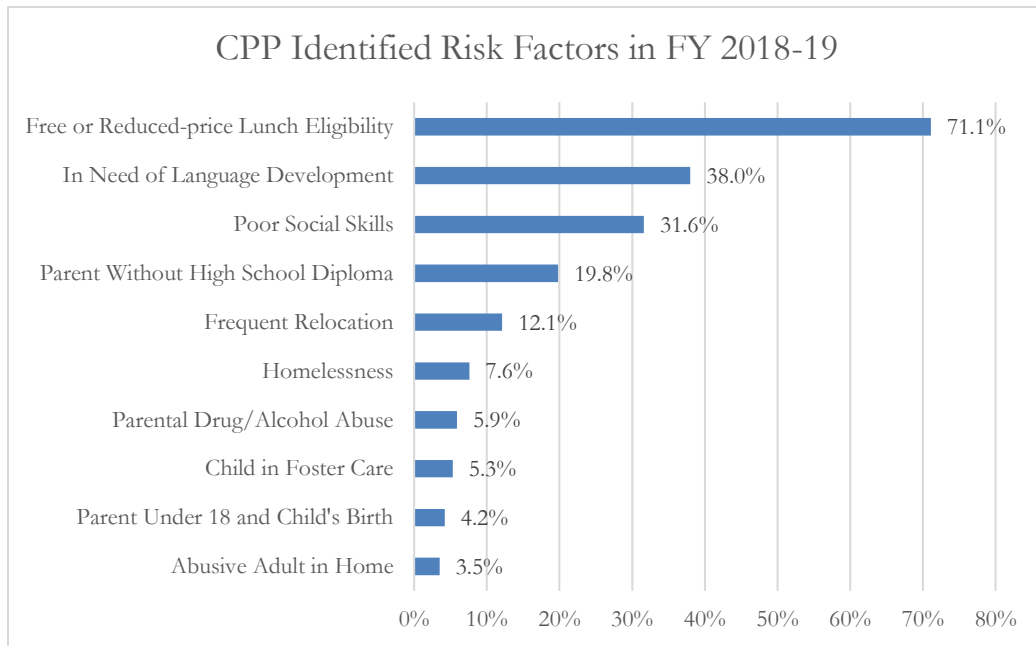
- Eligibility for free or reduced-price lunch.
- Homelessness of the child’s family.
- An abusive adult residing in the child’s home.
- Drug or alcohol abuse in the family.
- Either parent was less than 18 years of age and unmarried when the child was born.
- The child’s parent or guardian has not successfully completed a high school education or its equivalent.
- Frequent relocation to new residences.
- Poor social skills of the child.

The following graph (drawn from the Department’s annual legislative report on the CPP)<sup>1</sup> shows the percentage of CPP students in FY 2018-19 that reported each risk factor. As shown in the graph, 71.1

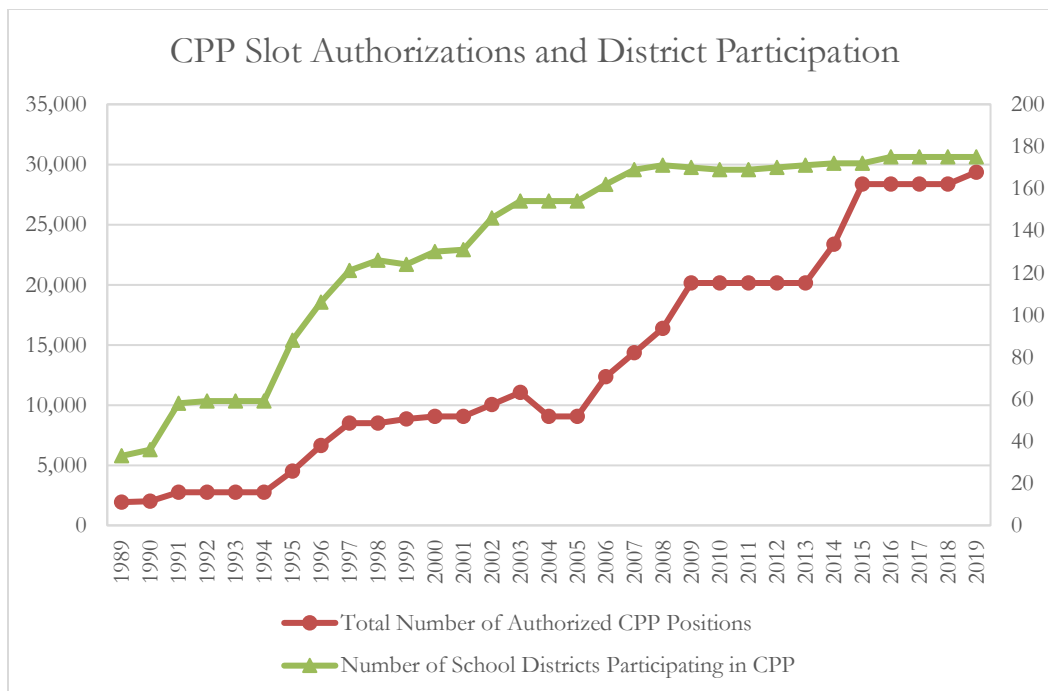
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<sup>1</sup> The 2020 legislative report is available at: <https://www.cde.state.co.us/cpp/cpplegreport>

percent of CPP students in FY 2018-19 were eligible for free or reduced price lunch. Because each student may have more than one risk factor (and three-year olds must have at least three), the percentages add to more than 100.0 percent.



Unlike most K-12 education funding (except for the ASCENT Program), statute authorizes a specific number of slots for the CPP each year. The number of authorized slots has grown from 1,933 in the first year of operation (FY 1988-89) to 29,360 slots in the current year. District participation has grown from 33 districts in the first year to 175 districts (out of 178) in FY 2018-19 (see following graph).



The CPP program supports students in a variety of settings depending on the needs and availability of resources in a given school district. According to the Department's 2020 Legislative Report, in FY 2018-19, 77.5 percent of CPP preschool students were served in district-run preschool programs, 13.3 percent were served in community-based programs (with funding passed through from the school district based on a contract with the local provider), and 9.2 percent were served in Head Start facilities.

*CPP vs. ECARE:*

Current law includes two categories of CPP slots: traditional CPP slots (20,160 per year since FY 2008-09) and Early Childhood At-risk Enhancement (ECARE) slots (a total of 9,200 additional slots under current law). Created in 2013 (S.B. 13-260 (School Finance)), the ECARE program provides additional flexibility in the use of slots.

- *Traditional CPP:* Current law requires school districts to use the vast majority (at least 95.0 percent) of traditional CPP slots to provide half-day preschool. With approval by the Department, Sec. 22-28-104 (4)(b), C.R.S., allows districts to use up to 5.0 percent of traditional CPP slots to provide a full-day of services (by using two slots per student).
- *ECARE:* Current law allows districts greater discretion with the use of ECARE slots. Prior to the implementation of full-day kindergarten in FY 2019-20, districts could use ECARE slots for either half-day preschool, full-day preschool, or to provide full-day kindergarten (using the ECARE slot to support the unfunded half-day of kindergarten). With the implementation of full-day kindergarten, districts now have the discretion to use ECARE slots to support either half-day preschool or full-day preschool (again using two slots per child).

According to the Department's 2020 Legislative Report, the 29,360 slots allocated in FY 2018-19 supported services to a total of 27,530 actual students because districts used 1,829 slots to provide full-day programming.

*Impact of Full-day Kindergarten:*

The Committee should note that the number of slots actually used for *preschool* has increased as a result of the implementation of full-day kindergarten. According to the request, school districts used 5,164 ECARE slots to support full-day kindergarten. With the enactment of H.B. 19-1262 (State Funding for Full-day Kindergarten), those slots are now only available for preschool programs. As a result, the number of slots actually available *for preschool* increased from 23,746 in FY 2018-19 to the full 29,360 in FY 2019-20.

*Program Outcomes and Evidence:*

The Department's annual legislative report for the CPP includes significant discussion of program outcomes and evidence comparing past CPP participants to students that are eligible for free or reduced-price lunch that did not participate in the program. Based on the Department's data and analyses, it appears that the benefits of the program (or other high quality early childhood education) persist into and through students' time in the K-12 education system. According to the 2020 legislative report, relative to the comparison group, CPP participants show the following benefits:

- *Early Literacy:* Students in kindergarten through third grade that participated in CPP are less likely to be identified with significant reading deficiencies than their peers that did not attend state-funded preschools (an average difference of five percentage points across those grades).
- *Retention Rates:* CPP students are also less likely to be retained (held back) in kindergarten through third grade (between 4.0 and 5.0 percent of CPP students were retained at some point from



kindergarten through third grade compared to rates of approximately 8.0 to 9.0 percent for similar non-CPP students). For both groups, first grade was the most likely point of retention.

- *Assessment Results:* The Department reports statistically significant differences in statewide assessment results for nearly all subject areas, with previous CPP participants meeting or exceeding expectations at higher rates than their non-CPP peers.
- *Graduation Rates:* Finally, based on FY 2017-18 graduation rate data, children served in CPP during the 2004-05 school year were 12 percent more likely to graduate on time with a school diploma than their non-CPP peers.

#### FY 2020-21 Request R6 and Estimates of Unmet Need

The Governor's Office is requesting an increase of \$27.6 million General Fund in FY 2020-21 to support an additional 6,515 ECARE slots (increasing the total number of CPP slots from 29,360 under current law to 35,875 under the request). The Department estimates that the increased slots would support services for 5,977 additional students through a combination of half-day and full-day programs. In addition to the outcomes and evidence discussed above, the Department's primary justification for the increased request is unmet need as measured by estimates of the population of eligible children relative to the preschool positions that are available.

- Based on its analysis, the Department estimates that 76,410 3- and 4-year old Colorado children would be eligible for CPP. With Head Start serving approximately 9,400 students, that leaves an estimated 67,010 children eligible for CPP and not served by Head Start.
- With CPP serving 27,530 actual children in FY 2018-19, the program served 41.0 percent of the estimated eligible population (after accounting for Head Start). Adding 5,977 students would allow the Department to serve 50.0 percent of the eligible population.

#### Points to Consider

As discussed above, staff recommends denying the requested increase as part of the budget process. Because increasing the number of authorized CPP/ECARE slots requires separate legislation, this request is not appropriate for inclusion in the Long Bill. The Governor's Office is not requesting this as a JBC bill. Thus, no further action is required of the Committee. Given the magnitude of the request (\$27.6 million General Fund), the Committee could consider setting aside funds during the balancing process *if the Committee would like to ensure that funds remain available to support the request.*

Although staff is not aware of a specific position on the request for the statewide education stakeholders, staff has heard some concerns from school districts about the magnitude of the request (when some districts may prefer to see those funds reduce the budget stabilization factor rather than go specifically to support preschool).