

This file contains two documents related to the Department of Education:

- A file dated January 25, 2007, concerning a staff "come-back" related to vehicle lease payments.
- A file dated January 25, 2007, concerning a supplemental request related to the Educator Licensure Unit.
- A file dated January 22, 2007, concerning the Department's initial supplemental requests (including those for school finance and the Colorado School for the Deaf and the Blind), as well as further staff recommendations.

COLORADO GENERAL ASSEMBLY

JOINT BUDGET COMMITTEE



FY 2006-07 SUPPLEMENTAL: DEPARTMENT OF EDUCATION

STAFF COMEBACK - VEHICLE LEASE PAYMENTS

JBC Working Document - Subject to Change

Staff Recommendation Does Not Represent Committee Decision

Prepared By:

Carolyn Kampman, Joint Budget Committee Staff

January 25, 2007

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**DEPARTMENT OF EDUCATION
FY 2006-07 SUPPLEMENTAL RECOMMENDATION
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Staff Comeback - Vehicle Lease Payments

The Committee has approved adjustments to various agencies' Vehicle Lease Payments line item appropriations for FY 2006-07, consistent with the request submitted by the Department of Personnel and Administration. However, the supplemental request did not reflect adjustments to the appropriation to the Department of Education for vehicle lease payments because it included these amounts with those for other "non-Long Bill appropriated" agencies.

Staff recommends a *reduction* in the appropriation to the Department of Education, Colorado School for the Blind, School Operations, Vehicle Lease Payments of \$21,768 General Fund. This adjustment is consistent with the Department's request as well as the Committee's previous action.

COLORADO GENERAL ASSEMBLY

JOINT BUDGET COMMITTEE



FY 2006-07 SUPPLEMENTAL: DEPARTMENT OF EDUCATION

PRIORITIZED REQUEST #3, SUBMITTED 1/18/07

JBC Working Document - Subject to Change

Staff Recommendation Does Not Represent Committee Decision

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January 25, 2007

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**DEPARTMENT OF EDUCATION
FY 2006-07 SUPPLEMENTAL RECOMMENDATION
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Supplemental # 3 - Educator Licensure

	Request	Recommendation
Total - Educator Licensure Cash Fund	\$50,000	\$50,000

Does JBC staff believe the request meets the Joint Budget Committee's supplemental criteria?

YES

[An emergency or act of God / a technical error in the appropriation / new data / an unforeseen contingency]

This supplemental request is based on new data related to the workload associated with processing criminal background checks. Staff also believes that this request meets the "unforeseen contingency" criterion.

Background Information.

- The *Office of Professional Services* is responsible for administering the Colorado Educator Licensure Act. The Office of Professional Services line item provides funding to support 19.0 FTE staff, including associated operating expenses and legal services. This Office is funded entirely through fees paid by educators seeking licenses, endorsements, and authorizations. Pursuant to Section 22-60.5-112, C.R.S., the State Board of Education is to annually adjust fees charged for licensing purposes, if necessary, so that the revenue generated approximates the direct and indirect costs of administering the Act. Fee revenues are deposited into the Educator Licensure Cash Fund.
- Pursuant to Section 22-60.5-103, C.R.S., the Department is required to conduct *background checks* on all applicants for educator licenses and authorizations. This includes accessing Colorado Bureau of Investigation (CBI) and Federal Bureau of Investigation (FBI) criminal history records using the applicant's fingerprints. In addition, the Department conducts a fingerprint-based criminal history record check through the CBI for each educator renewing a license or authorization who has not previously been fingerprinted for purposes of licensure (some of these educators may have been previously fingerprinted due to school district requirements, but not for licensure). The Department is authorized to use the Judicial's ICON system or any other available source of criminal history information that it deems appropriate to determine the crime(s) for which a person was arrested or charged and the disposition of any criminal charges.

Last year, the Educator Licensure Unit processed approximately 20,000 CBI reports and 20,000 FBI reports. Staff from CBI indicate that this Unit submits the highest number of civilian fingerprint background checks of any state agency, followed by the Division of Real Estate (approximately 30,000 annually). Prior to FY 2006-07, an applicant was required to submit a complete set of his or her fingerprints to the Educator Licensure Unit along with the licensure application, and the Unit forwarded the fingerprint card to the CBI. Pursuant to *S.B. 06-176*, the applicant now submits the fingerprints directly to the CBI prior to submitting an application. The Department does not issue a

**DEPARTMENT OF EDUCATION
FY 2006-07 SUPPLEMENTAL RECOMMENDATION
JBC WORKING DOCUMENT - SUBJECT TO CHANGE**

license or authorization prior to receiving the results of a fingerprint-based criminal records check from the CBI.

Department Request. The Department requests a \$50,000 increase in cash funds spending authority from the Educator Licensure Cash Fund for FY 2006-07 to address backlogs that have developed due to recent changes in the process used by the CBI to provide background check results to the Department. The Department indicates that approval of this request would not increase licensure fees.

The CBI has implemented a new system for distributing results of background checks and this change has increased the Licensure Unit's workload and slowed processing time frames. Prior to November 2006, the Licensure Unit received the results of criminal history record checks (both clearances and those "hits" indicating that an applicant has a felony or misdemeanor criminal history) via modem in a "batch". Staff could quickly scan the results of multiple checks, picking out those applicants with hits and printing results for review by the Investigations Unit. The Unit could then update the status of the remaining applicant's electronic files to authorize the issuance of a license once the application is approved. The process of receiving and reviewing criminal history record results did not impact the time frame associated with issuing or renewing a license.

The Licensure Unit received fingerprints that were rejected by CBI and/or FBI as unclassifiable via interoffice mail in hardcopy. Staff would then mail the card and a memo to the applicant instructing them to get their fingerprinting done again, and resubmit both the rejected and new fingerprint cards together (to avoid having to pay a second fee).

Since the new "Secure Document Delivery System" was implemented by the CBI in November 2006, the Licensure Unit's workload has increased as follows:

- The Department now receives criminal history record check results through the CBI and FBI via website access in single subject files that must be opened individually and cannot be identified as containing a hit or clearance information until opened. The Department is no longer able to quickly triage or process the results. Instead, each electronic file must be opened individually, and each identified hit is then printed out and given to the Investigations Unit for review. Specifically, the Licensing Unit could previously enter background check results into its licensure system at a rate of about 60 per hour (480/day). Initially, when the new CBI system was implemented, the Unit could only process about 60 per day. The CBI subsequently made some changes to the way that results are accessed and processed, as well as the information that appears in the results file¹, and the Unit is now able to process about 200 per day. As a result, while the Unit used to devote 0.3 FTE to process

¹ Previously, the applicant's social security number did not appear in the results file, making the process of matching the results to an individual in the licensure system very cumbersome.

**DEPARTMENT OF EDUCATION
FY 2006-07 SUPPLEMENTAL RECOMMENDATION
JBC WORKING DOCUMENT - SUBJECT TO CHANGE**

background check results, it now has 1.0 FTE processing results full-time (including overtime). Thus, other licensure activities are being impacted as well.

- The Department now receives fingerprints that are rejected by CBI and/or FBI as unclassifiable via website access in single subject files that must be opened individually (rather than simply receiving the rejected cards in the mail). Department staff are now required to open each file, open a separate card reader, and print a copy of the rejected fingerprint card in order to mail it out as before. Last year staff processed 1,900 rejected fingerprint cards at a rate of about 12 cards per hour. With the new process, the Department is able to process about six cards per hour.

The Department indicates the overall licensing/authorization process time is about eight weeks (and up to 12 weeks during peak times in Summer and December/January). This process time frame, however, does not include any delay related to accessing fingerprint information. After the implementation of the new CBI system in November 2006, a backlog of 4,000 criminal history results developed (i.e., the Licensure Unit had not yet downloaded 4,000 results and transferred the information to its licensing system). This backlog has, in turn, created a backlog of applications that have been approved but are awaiting criminal history check results (a backlog of approximately 300). As of yesterday (1/24/07), the backlog of criminal history check results was at about 3,100 (including 821 CBI results and 2,282 FBI results). Licensure staff indicate that the backlog continues to fluctuate, but it is expected to rise again once the CBI processes the bulk of fingerprint cards associated with mid-year applications.

The Department is requesting \$50,000 cash funds spending authority to hire contract staff (the equivalent of 3.0 FTE for five months, working 160 hours/month at a cost of \$20/hour) **to eliminate both the backlog of criminal history check results that have not yet been processed and the associated backlog of approved applications.** It is unclear at this time whether any additional funding and staff will be required in FY 2007-08.

Staff Recommendation.

Based on conversations with staff from the Department of Public Safety, staff understands that the CBI has been working toward a paperless system for processing criminal history record checks. The FBI accepts requests for fingerprint-based background checks in two forms: (1) physical cards (either an "ink and roll" fingerprint on a card or a copy of a scanned print); or (2) electronic fingerprint files. The FBI processing time frame is significantly shorter for electronic files compared to physical cards: less than 72 hours, compared to 4 to 6 weeks. The Department of Public Safety has assisted many local law enforcement agencies by using federal funds to provide "live-scan" machines to collect fingerprints electronically. These machines thus significantly reduce the time frame for receiving FBI results. In addition, fingerprints that are collected in this manner are much less likely to be rejected as unclassifiable.

**DEPARTMENT OF EDUCATION
FY 2006-07 SUPPLEMENTAL RECOMMENDATION
JBC WORKING DOCUMENT - SUBJECT TO CHANGE**

More recently, the CBI has purchased an off-the-shelf system (using existing resources) that eliminates much of the paper involved in the process. Response data from the FBI is now directly downloaded into the new Secure Document Delivery System, which has created some efficiencies for the CBI. Specifically, the CBI is no longer required to mail documents to the FBI, nor is it required to make photocopies of responses, enter data from the response, and mail the response information to the requesting agency.

This new system is being used by law enforcement and most state agencies (the Division of Real Estate is scheduled to begin using the system next week). The Colorado Department of Education (CDE) was the first state agency to use the new system last November. Staff from CBI acknowledged that the new system has created a workload impact on CDE's Licensure Unit, particularly in the first several weeks. Although CBI staff were able to address the extraordinarily slow processing times CDE experienced initially, they indicate that much of the workload impact to CDE can only be addressed by upgrading the new CBI software. Specifically, DPS plans to modify the new system so that an agency can, with one click, print all responses that are "hits" or "rejects" without having to open each individual file. They hope to make these changes within the next four to six months.

Staff recommends approving the Department's request for FY 2006-07. It is critical that the Department address the existing backlogs in the next four to five months, prior to entering the peak Summer months. School districts and educators rely on the Department to process licensure applications in a timely manner in order to ensure that teaching positions are filled at the beginning of each semester. If these backlogs persist through the Summer, extended licensing time frames could impair districts' ability to staff their classrooms in the Fall. In addition, staff understands that Licensure staff have 90 days to download criminal record check results before they are eliminated from the new system. If this occurs, the affected applicants would be required to submit a second set of fingerprints, further delaying the licensure process (and requiring a second fee).

The Department of Education has not had any control over the system changes that have been implemented by the CBI. As it was the first state agency to use the new CBI system, it has borne the majority of consequences of implementation. Based on conversations with CBI staff, it does not appear that CDE has the option of reverting to the previous system until the software upgrades are implemented. While staff is hopeful that the software upgrades planned by the CBI will fully address the workload impact on CDE, it is not clear that they will. Staff believes that in the long-term, CDE will need to evaluate its own procedures for processing licensure applications. It appears to staff that CDE's current system is based on paper-intensive procedures which are not compatible with the new paperless system implemented by the CBI.

COLORADO GENERAL ASSEMBLY

JOINT BUDGET COMMITTEE



FY 2006-07 SUPPLEMENTAL: DEPARTMENT OF EDUCATION

PRIORITIZED AND NON-PRIORITIZED REQUESTS

JBC Working Document - Subject to Change

Staff Recommendation Does Not Represent Committee Decision

Prepared By:

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January 22, 2007

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**DEPARTMENT OF EDUCATION
FY 2006-07 SUPPLEMENTAL RECOMMENDATION
JBC WORKING DOCUMENT - SUBJECT TO CHANGE**

TABLE OF CONTENTS

	Numbers Page	Narrative Page
Supplemental #1 - School Finance	1	5
Supplemental #2 - Variable Vehicle Charge	1	13
Staff-Initiated #1 - Read-to-Achieve Grant Program	2	15
Staff-Initiated #2 - State Charter School Institute	2	16
Staff-Initiated #3 - Emeritus Retirement	3	18
Staff-Initiated #4 - Small Attendance Center Aid	3	19
Statewide Common Policy Supplemental Requests	4	21
Totals for All Supplementals	4	N.A.
<u>Additional Information:</u>		
Locally Negotiated Business Incentive Agreements	N.A.	21
<u>Information Only:</u>		
Previously Approved 1331 Supplemental - Adjust Fund Sources for School Finance Funding for FY 2005-06	N.A.	24

	FY 2005-06	FY 2006-07	Fiscal Year 2006-07 Supplemental		
	Actual	Appropriation	Requested Change	Recommended Change	New Total with Recommendation
DEPARTMENT OF EDUCATION					
Commissioner - William J. Moloney					
Supplemental #1 - School Finance					
<i>(2) Assistance to Public Schools</i>					
<i>(A) Public School Finance</i>					
State Share of Districts' Total Program	<u>2,869,586,294</u>	<u>3,039,162,729</u>	<u>21,101,164</u>	<u>21,101,164</u>	<u>3,060,263,893</u>
General Fund	2,217,686,696	2,391,809,898	Sources not	0	2,391,809,898
General Fund Exempt	261,400,000	256,100,000	specified	0	256,100,000
Cash Funds - State Public School Fund	9,491,876	9,527,356		(35,480)	9,491,876
CF Exempt - State Education Fund	299,918,887	308,628,360		0	308,628,360
CF Exempt - State Public School Fund	81,088,835	73,097,115		21,136,644	94,233,759
Supplemental #2 - Variable Vehicle Charge					
<i>(4) School for the Deaf and the Blind</i>					
<i>(A) School Operations</i>					
Operating Expenses - (GF)	396,178	400,077	15,490	15,490	415,567
Utilities - (GF)	510,705	577,718	(15,490)	(79,624)	498,094
Total for Supplemental #2 - (GF)	906,883	977,795	0	(64,134)	913,661

	FY 2005-06	FY 2006-07	Fiscal Year 2006-07 Supplemental		
	Actual	Appropriation	Requested Change	Recommended Change	New Total with Recommendation
(Staff Initiated #1) Potential Adjustments to Read-to-Achieve Grant Program Appropriations					
<i>(2) Assistance to Public Schools</i>					
<i>(C) Grant Programs and Other Distributions</i>					
Read-to-Achieve Grant Program - (CFE - Read-to-Achieve Cash Fund)	15,914,274	4,369,567	0	0	4,369,567
(Staff Initiated #2) Adjustments to Appropriations Related to the State Charter School Institute					
<i>(1) Management and Administration</i>					
State Charter School Institute Administration, Oversight, and Management - (CFE - donations and transfer from State Share line FTE	n/a	765,125 6.5	0	(292,038) (1.5)	473,087 5.0
Direct Administrative and Support Services Provided by the Department to the State Charter School Institute - (CFE - transfer from above line item) FTE	n/a	255,042 2.0	0	(195,042) (0.7)	60,000 1.3
Department Implementation of Section 22- 30.5-501 et seq., C.R.S. - (CFE - transfer from State Share line item) FTE	n/a	510,084 3.0	0	(194,693) 2.0	315,391 5.0
Total: Staff-initiated Supplemental #2 - (CFE) FTE	n/a	1,530,251 11.5	0 0.0	(681,773) (0.2)	848,478 11.3

	FY 2005-06	FY 2006-07	Fiscal Year 2006-07 Supplemental		
	Actual	Appropriation	Requested Change	Recommended Change	New Total with Recommendation
(Staff Initiated #3) Emeritus Retirement					
<i>(1) Management and Administration</i>					
Emeritus Retirement - (GF)	30,575	29,392	0	(7,785)	21,607
(Staff Initiated #4) Small Attendance Center Aid <i>(See alternative funding option in narrative)</i>					
<i>(2) Assistance to Public Schools</i>					
<i>(B) Categorical Programs</i>					
<i>(II) Other Categorical Programs</i>					
Small Attendance Center Aid	<u>889,541</u>	<u>890,777</u>	<u>0</u>	<u>71,040</u>	<u>961,817</u>
General Fund	833,405	834,479	0	0	834,479
Cash Funds Exempt - State Education Fund	56,136	56,298	0	71,040	127,338
Totals Excluding Pending Items					
DEPARTMENT OF EDUCATION					
TOTALS for ALL Departmental line items	3,677,897,728	3,847,835,765	21,101,164	20,418,512	3,868,254,277
FTE	<u>444.3</u>	<u>466.2</u>	<u>0.0</u>	<u>(0.2)</u>	<u>466.0</u>
General Fund	2,445,706,636	2,618,502,753	Not all sources specified	(71,919)	2,618,430,834
General Fund Exempt	261,400,000	256,100,000		0	256,100,000
Cash Funds	15,088,414	14,615,679		(35,480)	14,580,199
Cash Funds Exempt	498,960,814	470,577,544		20,525,911	491,103,455
Federal Funds	456,741,864	488,039,789		0	488,039,789

	FY 2005-06	FY 2006-07	Fiscal Year 2006-07 Supplemental		
	Actual	Appropriation	Requested Change	Recommended Change	New Total with Recommendation
Statewide Supplementals (see narrative for more detail)	<u>N.A.</u>	<u>N.A.</u>	(23,208)	Pending	<u>N.A.</u>
General Fund			(32,138)		
Cash Funds			26,069		
Cash Funds Exempt			25,572		
Federal Funds			(42,711)		
Totals Including Pending Items in Request					
DEPARTMENT OF EDUCATION					
TOTALS for ALL Departmental line items	3,677,897,728	3,847,835,765	21,077,956	20,418,512	3,868,254,277
FTE	<u>444.3</u>	<u>466.2</u>	<u>0.0</u>	<u>(0.2)</u>	<u>466.0</u>
General Fund	2,445,706,636	2,618,502,753	Not all sources	(71,919)	2,618,430,834
General Fund Exempt	261,400,000	256,100,000	specified	0	256,100,000
Cash Funds	15,088,414	14,615,679		(35,480)	14,580,199
Cash Funds Exempt	498,960,814	470,577,544		20,525,911	491,103,455
Federal Funds	456,741,864	488,039,789		0	488,039,789

Key: "N.A." = Not Applicable

**DEPARTMENT OF EDUCATION
FY 2006-07 SUPPLEMENTAL RECOMMENDATION
JBC WORKING DOCUMENT - SUBJECT TO CHANGE**

Supplemental # 1 - School Finance

	Request*	Recommendation
Total	<u>\$21,101,164</u>	<u>\$21,101,164</u>
General Fund		0
General Fund Exempt		0
Cash Funds - Rental Income		(35,480)
CFE - State Education Fund		0
CFE - State Public School Fund		21,136,644
Federal Funds		0

* As of January 19, 2007 (the day this packet was completed), the Department's official request related to funding for the School Finance Act had not yet been submitted to the Joint Budget Committee by the Office of State Planning and Budgeting (it is officially due January 24). Thus, the proposed financing of the request has not yet been specified.

Does JBC staff believe the request meets the Joint Budget Committee's supplemental criteria?	YES
[An emergency or act of God / a technical error in the appropriation / new data / an unforeseen contingency]	
This supplemental request is based on new data related to student enrollment, local revenues, and certain sources of state revenues.	

Background Information. This line item reflects the state share of districts' total program funding pursuant to the School Finance Act of 1994 (as amended). While the applicable inflation rate is known at the time the Long Bill appropriation is established (and thus the required increase in base per pupil funding is known), other data that affects the required appropriation of state funds are not known. Specifically, the appropriation is based on estimates of the funded pupil count, the number of at-risk students, available local tax revenues, and certain sources of state revenues. By January within the fiscal year, this data has been collected by school districts and compiled by the Department.

As required by Section 22-54-106 (4) (b), C.R.S., the Department annually submits a supplemental request to adjust the current year appropriation based on actual student count and local tax revenue data. If existing appropriations are insufficient and the General Assembly does not provide additional funds, the Department is required to reduce state aid for each school district and each institute charter school on a pro rata basis [see Section 22-54-106 (4) (c), C.R.S.]. The following Table A provides a history of supplemental appropriations for school finance since the existing School Finance Act was enacted.

**DEPARTMENT OF EDUCATION
FY 2006-07 SUPPLEMENTAL RECOMMENDATION
JBC WORKING DOCUMENT - SUBJECT TO CHANGE**

TABLE A: Recent Supplemental Appropriations for School Finance				
Fiscal Year	Appropriations Made in Session Prior to Fiscal Year	Supplemental Adjustments		Final Appropriation
		Dollars	Percent Change	
FY 1994-95	\$1,442,667,337	(\$15,087,733)	-1.0%	\$1,427,579,604
FY 1995-96	1,528,611,353	(2,341,892)	-0.2%	1,526,269,461
FY 1996-97	1,646,300,014	1,404,276	0.1%	1,647,704,290
FY 1997-98	1,730,007,374	(4,414,173)	-0.3%	1,725,593,201
FY 1998-99	1,855,911,414	(5,065,406)	-0.3%	1,850,846,008
FY 1999-00	1,941,784,338	(11,649,747)	-0.6%	1,930,134,591
FY 2000-01	2,056,039,525	(7,965,651)	-0.4%	2,048,073,874
FY 2001-02	2,221,879,782	8,156,453	0.4%	2,230,036,235
FY 2002-03	2,455,147,022	29,395,541	1.2%	2,484,542,563
FY 2003-04	2,604,731,215	22,342,837	0.9%	2,627,074,052
FY 2004-05	2,732,460,144	11,444,662	0.4%	2,743,904,806
FY 2005-06	2,838,429,178	32,800,098	1.2%	2,871,229,276
FY 2006-07 (requested)	3,040,302,744	21,101,164	0.7%	3,061,403,908

Total Funding Need for FY 2006-07. The Department has provided information indicating that the FY 2006-07 appropriation needs to be increased by **\$21,101,164 (0.7 percent)** to provide the full amount of funding required by the School Finance Act. As detailed in the above Table A, while adjustments of greater magnitude have been approved in recent years (including FY 2005-06), it represents a relatively large mid-year adjustment. **This increase is primarily due to higher than anticipated enrollment and lower than anticipated local revenues.** Table C, on page 9, details the changes in various components that affect the amount of state funding required for FY 2006-07, and a brief description of the major changes is provided below:

- The actual *funded pupil count* is **slightly higher than anticipated**. The original appropriations were based on an estimated funded pupil count of 750,307; the Department indicates that the actual funded pupil count is 753,338 -- 3,031 FTE (0.4 percent) higher than the estimate. This increase in the funded pupil count **increases districts' total program funding by \$19.3 million**. See Appendix A for more detailed information about many districts that grew significantly faster than anticipated.

**DEPARTMENT OF EDUCATION
FY 2006-07 SUPPLEMENTAL RECOMMENDATION
JBC WORKING DOCUMENT - SUBJECT TO CHANGE**

Please note that of the 3,031.2 FTE enrollment in excess of projections, 1,729.8 FTE (57 percent) relates to one district -- Baca-Vilas. This rural district actually experienced a decline in the number of "brick and mortar" students (declining from 122.1 to 94.0); this decline was more than offset, however, by a 223 percent increase in the number of online students (increasing from 1,777.0 to 3,963.5). Staff has provided Table B, below, to provide a comparison of the projected and actual funding for the Baca-Vilas school district. As indicated below, the state share of funding for this district is \$10.3 million higher than anticipated -- accounting for nearly half of the required mid-year funding adjustment.

TABLE B: Mid-year Adjustment for Baca - Vilas			
School Finance: Baca-Vilas	FY 06-07 Projection	FY 06-07 Actual	Difference
Funded Pupil Count	2,327.7	4,057.5	1,729.8
Per Pupil Funding	\$5,963.08	\$5,962.04	(\$1.04)
Total Program Funding	\$13,880,259	\$24,190,982	\$10,310,723
<u>Local Share</u> of Districts' Total Program Funding	<u>\$215,234</u>	<u>\$222,825</u>	<u>\$7,591</u>
Property Tax Revenue	\$186,820	\$193,307	\$6,487
Specific Ownership Tax Revenue	\$28,414	\$29,518	\$1,104
<i>Local Share as Percent of Total Program</i>	<i>1.6%</i>	<i>0.9%</i>	
<u>State Share</u> of Districts' Total Program Funding (Excluding additional state aid related to BIAs)	\$13,665,025	\$23,968,157	\$10,303,132
<i>State Share as Percent of Total Program</i>	<i>98.4%</i>	<i>99.1%</i>	

- The ***statewide average per pupil funding*** amount is **\$16.76 (0.03 percent) lower than anticipated, offsetting the above increase in districts' total program funding by \$12.6 million.** This reduction is primarily due to a smaller than anticipated increase in the number of students considered to be "at-risk" based on eligibility for the federal free lunch program. The original appropriation was based on an estimated at-risk student count of 241,107 (32.1 percent of the estimated funded pupil count). The actual at-risk student count totaled 232,871 (30.9 percent of the actual funded pupil count) -- an increase of 1.4 percent in the number of at-risk students compared to FY 2005-06. Districts receive a greater amount of per pupil funding based on the presence and concentration of at-risk students in that district. A lower number of at-risk students results in a lower statewide average per pupil funding amount.

**DEPARTMENT OF EDUCATION
FY 2006-07 SUPPLEMENTAL RECOMMENDATION
JBC WORKING DOCUMENT - SUBJECT TO CHANGE**

The two changes described above result in a net \$6.7 million increase in districts' total program funding under the School Finance Act.

State Funding Need for FY 2006-07. If the amount of available local tax revenues matched the estimates used to determine the FY 2006-07 appropriation of state funds, this would require a \$6.7 million increase in state funding. **However, actual available *local tax revenues* are \$14.4 million lower than projected last Spring, requiring a \$14.4 million increase in the state share of funding.** Specifically, property tax revenues are \$3.3 million (0.2 percent) lower than projected, and specific ownership taxes are \$11.1 million (6.5 percent) lower than projected. **Thus, existing appropriations of state funds are \$21.1 million short of fully funding the School Finance Act.** [Appendix A provides information related to the 16 school districts requiring the largest mid-year increases in state funding.]

Vehicle registration taxes are collected by counties and shared with school districts. Pursuant to Section 22-54-106 (1) (a) (I), C.R.S., each district's local share of funding for total program includes a portion of these district "specific ownership tax revenues" -- specifically, that portion that was collected for the previous budget year that is attributable to all property tax levies made by the school district, except those levies made for the purpose of satisfying bonded indebtedness obligations (both principal and interest) and those authorized pursuant to voter approval to raise and expend additional ("override") property tax revenues in excess of the district's total program [see Section 22-54-103 (11), C.R.S.]. Total specific ownership tax revenues are directly related to the number of and taxable value of vehicles. The portion of these revenues that count toward the local share of total program funding is impacted by school districts' general fund mill levies in relation to other school district mill levies, as well as other local mill levies.

Appendix B provides a history of **districts' specific ownership tax revenues that are included as part of the local share** of districts' total program funding since the current School Finance Act was enacted in 1994. These revenues **have declined every year since FY 2002-03**; in the current fiscal year, these revenues declined for 154 of 178 school districts. It is staff's understanding, however, that this decline is primarily related to decreases in many districts' general fund mill levies and increases in districts' override mill levies and those related to bonded indebtedness. Thus, total specific ownership taxes may be increasing for many districts while that portion that is "counted" as part of the local share of total program funding is decreasing.

Summary of Changes for FY 2006-07. The following Table C details changes in the funded pupil count, total program funding, and the state and local shares of such funding.

**DEPARTMENT OF EDUCATION
FY 2006-07 SUPPLEMENTAL RECOMMENDATION
JBC WORKING DOCUMENT - SUBJECT TO CHANGE**

TABLE C: Changes to School Finance Based on Actual Enrollment and Local Revenues				
School Finance: Total Program	FY 05-06 Actual	FY 06-07		
		Original Appropriation	Appropriation Adjusted Per Supp. Recomm.	Change
Funded Pupil Count	741,327.7	750,306.8	753,338.0	3,031.2
<i>Annual Percent Change</i>	<i>1.6%</i>	<i>1.2%</i>	<i>1.6%</i>	
Statewide <u>Base</u> Per Pupil Funding	\$4,717.62	\$4,863.87	\$4,863.87	\$0.00
<i>Annual Percent Change</i>	<i>1.1%</i>	<i>3.1%</i>	<i>3.1%</i>	
Statewide <u>Average</u> Per Pupil Funding	\$6,167.54	\$6,375.68	\$6,358.92	(\$16.76)
<i>Annual Percent Change</i>	<i>1.5%</i>	<i>3.4%</i>	<i>3.1%</i>	
Total Program Funding	\$4,572,169,688	\$4,783,715,116	\$4,790,417,406	\$6,702,290
<i>Annual Percent Change</i>	<i>3.2%</i>	<i>4.6%</i>	<i>4.8%</i>	
<u>Local Share</u> of Districts' Total Program Funding	<u>\$1,702,467,578</u>	<u>\$1,744,552,387</u>	<u>\$1,730,153,513</u>	<u>(\$14,398,874)</u>
Property Tax Revenue	\$1,539,962,032	\$1,573,921,563	\$1,570,647,975	(\$3,273,588)
Specific Ownership Tax Revenue	\$162,505,546	\$170,630,824	\$159,505,538	(\$11,125,286)
<i>Annual Percent Change on Total</i>	<i>0.8%</i>	<i>2.5%</i>	<i>1.6%</i>	
<u>State Share</u> of Districts' Total Program Funding (Excluding Additional State Aid Related to BIAs)	\$2,869,702,110	\$3,039,162,729	\$3,060,263,893	\$21,101,164
<i>Annual Percent Change</i>	<i>4.7%</i>	<i>5.9%</i>	<i>6.6%</i>	
<i>State Share as Percent of Districts' Total Program</i>	<i>62.8%</i>	<i>63.5%</i>	<i>63.9%</i>	

Staff Recommendation: Staff recommends increasing the appropriation for the state share of districts' total program funding for FY 2006-07 by \$21,101,164 in order to fully fund the School Finance Act. Due to the existing level of total General Fund appropriations and the statutory six percent limit on the annual growth of such appropriations, staff recommends financing the supplemental using moneys in the State Public School Fund, as detailed in Table D on the following page. Revenues to the State Public School Fund were \$16.5 million higher than anticipated in FY 2005-06 -- primarily due to a 41.3 percent increase in federal mineral lease revenues [see Appendix C for a history of federal mineral lease revenues]. In addition, current year revenues to the Fund are now projected to be \$9.1 million higher than anticipated last Spring. Thus, the General Assembly could increase the FY 2006-07 appropriation from the State Public School Fund to cover the full increase requested by the Department.

**DEPARTMENT OF EDUCATION
FY 2006-07 SUPPLEMENTAL RECOMMENDATION
JBC WORKING DOCUMENT - SUBJECT TO CHANGE**

TABLE D: Recommended Adjustments to FY 2006-07 Appropriations for School Finance			
Fund Source	Existing Appropriation	Recommended Appropriation	Recommended Adjustments
General Fund (including General Fund Exempt Account)	\$2,647,909,898	\$2,647,909,898	\$0
Cash Funds: State Public School Fund (rental income earned on public school lands)	9,527,356	9,491,876	(35,480)
Cash Funds Exempt: State Public School Fund (federal mineral lease revenues, interest earned on the Public School Fund, audit recoveries, and reserves)	73,097,115	94,233,759	21,136,644
Cash Funds Exempt: State Education Fund	308,628,360	308,628,360	0
Total Funds	3,039,162,729	3,060,263,893	21,101,164

In addition, in order to correct a technical error in the FY 2006-07 Long Bill, staff recommends reducing the cash funds appropriation for school finance from this fund by \$35,480 to ensure that such appropriations do not exceed the statutory \$12,000,000 limit, and increasing the cash funds exempt appropriation by the same amount. Table E (below), details revenues and expenditures from the State Public School Fund for FY 2005-06 and FY 2006-07.

TABLE E: State Public School Fund Revenues and Expenditures				
Revenue Source	FY 2005-06 Actual	FY 2006-07		
		Original Estimate	Revised Estimates	Change
Beginning Fund Balance	\$5,952,653	\$1,561,595	\$18,151,684	\$16,590,089
Rental income earned on public school lands - (CF)	12,000,000	12,000,000	12,000,000	0
Federal mineral lease revenues*	69,249,702	52,071,000	61,178,000	9,107,000
Interest and investment income earned on the Public School Fund (also called the "Permanent Fund")	19,439,985	19,000,000	19,000,000	0
District audit recoveries**	4,598,178	2,000,000	2,000,000	0
Unexpended appropriations for the State Share of Districts' Total Program Funding	<u>233,744</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Funds Available	111,474,262	86,632,595	112,329,684	25,697,089

**DEPARTMENT OF EDUCATION
FY 2006-07 SUPPLEMENTAL RECOMMENDATION
JBC WORKING DOCUMENT - SUBJECT TO CHANGE**

TABLE E: State Public School Fund Revenues and Expenditures				
Line Item	FY 2005-06 Actual	FY 2006-07		
		Original Approp.	Adjusted Approp.	Recomm. Changes
State Share of Districts' Total Program Funding - Total	<u>90,814,454</u>	<u>82,624,471</u>	<u>103,725,635</u>	<u>21,101,164</u>
Cash Funds	9,491,876	9,527,356	9,491,876	(35,480)
Cash Funds Exempt	81,322,578	73,097,115	94,233,759	21,136,644
State Match for National School Lunch Program - (CF)	2,472,644	2,472,644	2,472,644	0
Supplemental On-line Education Programs - (CFE)	n/a	531,580	531,580	0
Publishing of school laws - (CF)	35,480	<u>35,480</u>	<u>35,480</u>	<u>0</u>
Total Expenditures / Appropriations	<u>93,322,578</u>	<u>85,664,175</u>	<u>106,765,339</u>	<u>21,101,164</u>
Cash Funds	12,000,000	12,035,480	12,000,000	(35,480)
Cash Funds Exempt	81,322,578	73,097,115	94,233,759	21,136,644
Ending Fund Balance	<u>18,151,684</u>	<u>968,420</u>	<u>5,564,345</u>	

* For purposes of this recommendation, staff assumes that the total federal mineral lease revenues allocated to the State Public School Fund in the first two quarters of 2007 will equal the allocations in the final two quarters of 2006.

** While it is possible that the Department of Education will recover more than \$2.0 million through district audits this fiscal year, this amount will not be known until late February or early March.

Finally, recommends that the Committee vote on whether to provide all or a portion of the \$21.1 million required for the School Finance Act at this time. If the Committee chooses to deny this funding, the Department will need to notify school districts about the rescission that will occur in June. **However, the actual adjustment to FY 2006-07 appropriations could either be included as part of the FY 2006-07 supplemental bill for Education that is introduced in early February, or it could be included as a section in the FY 2007-08 Long Bill.** As staff anticipates making recommendations to adjust FY 2006-07 appropriations from the General Fund Exempt Account based on the March 2007 revenue forecast, it may be simpler to make all the adjustments to the State Share line item in the FY 2007-08 Long Bill.

Updated Projections of General Fund Appropriations Required to Maintain State Education Fund Solvency. Staff has again updated the model originally developed by Pacey Economics Group to estimate the impact of various levels of General Fund appropriations on the solvency of the State Education Fund. Since staff's presentation last December, staff has updated the model to reflect Legislative Council Staff's December 2006 revenue forecast, actual student enrollment and local funding data for FY 2006-07, as well as more recent Legislative Council Staff projections of student enrollment and local funding. Staff has prepared two funding scenarios, based on two different approaches to financing the state share of funding for

**DEPARTMENT OF EDUCATION
FY 2006-07 SUPPLEMENTAL RECOMMENDATION
JBC WORKING DOCUMENT - SUBJECT TO CHANGE**

public schools. Both scenarios provide the same overall level of funding for public schools (the minimum required under current law), and both assume the same level of local funding in each fiscal year.

Scenario 1: The first scenario is consistent with requests submitted by Governor Owens in recent years, including the FY 2007-08 budget request and the initial FY 2006-07 supplemental request. Under this scenario:

- ▶ The General Fund appropriation for categorical programs does not increase in future fiscal years. Instead, the State Education Fund is used to cover the full required increase in state funding for categorical programs each year.
- ▶ Consistent with emergency supplemental requests submitted last June, **Governor Owens' administration requested that the Committee offset any positive General Fund supplemental requests approved for other state agencies by reducing the General Fund appropriation to the Department of Education for the State Share of Districts' Total Program Funding (a requested reduction of \$17,364,380)**, and increasing the State Education Fund appropriation for such purpose by the same amount.
- ▶ The General Fund appropriation for districts' total program funding is increased by the minimum amount allowed through FY 2010-11 (5.0 percent annually), unless a greater increase is needed in a particular year to provide the overall amount of state funding required (i.e., the State Education Fund balance is depleted to the point that it cannot cover the required increase). In FY 2011-12 and subsequent fiscal years, this scenario simply reflects the annual increase in General Fund required each year (i.e., the General Fund appropriation could increase by \$0 if the State Education Fund balance were adequate to cover the required increase in state funding).

Scenario 1 requires relatively high expenditures from the State Education Fund in the short-term. This, in turn, would cause the State Education Fund balance to decline so that by FY 2009-10, the fund balance would be insufficient to cover the required increases in state funding. [Appendix D-1 provides an illustration of the annual General Fund increases required under this scenario, along with the associated State Education Fund balances.] As a result, a 12.3 percent General Fund increase would be required in FY 2009-10, requiring that \$381 million of the \$450 million allowable increase in General Fund appropriations (85 percent) be devoted to K-12 education, leaving \$69 million for other state programs. Please note that last Fall Joint Budget Committee staff projected that a *minimum* of \$235 million will be required in FY 2010-11 to cover expenditure increases in the Medicaid program, corrections, higher education, human services, and the Judicial Branch, as well as to cover statewide employee salary and benefit increases. Under this scenario, available funds would fall \$166 million short of covering these needs. Finally, this approach would also reduce the annual interest and investment income earned on the State Education Fund balance.

**DEPARTMENT OF EDUCATION
FY 2006-07 SUPPLEMENTAL RECOMMENDATION
JBC WORKING DOCUMENT - SUBJECT TO CHANGE**

Scenario 2: The second scenario is consistent with recommendations that have been made by Joint Budget Committee staff. Under this scenario, General Fund appropriations for categorical programs increase proportionately in future fiscal years (e.g., if total state funding for categorical programs increases by 4.4 percent, General Fund appropriations also increase by 4.4 percent). In addition, the annual General Fund appropriation for districts' total program funding increases at a consistent rate to avoid the need for any one year increase that is significantly in excess of six percent.

Scenario 2 requires increases in General Fund appropriations (for both school finance and categorical programs) of about 6.6 percent annually through FY 2016-17, when pupil enrollment increases are projected to peak. [Appendix D-2 provides an illustration of the annual General Fund increases required under this scenario, along with the associated State Education Fund balances.] This scenario not only avoids the unmanageable General Fund increase otherwise required in FY 2009-10, it maintains a State Education Fund balance of at least \$100 million. This balance can serve as a "rainy day fund" for periods of economic downturn (as it did from FY 2002-03 through FY 2004-05), or for those periods of relatively high inflation (such as FY 2002-03). This fund balance, particularly if it is sustained and predictable, allows the State Treasurer to earn greater interest and investment income; these earnings are exempt from TABOR and the six percent limit on General Fund appropriations.

Staff Recommendation Concerning Potential "Refinancing" of State Share line item: Staff recommends that the Committee wait to make any decision concerning a potential refinance of the State Share line item (as requested by the Owens' administration) until it has acted on all supplemental requests -- including formal supplemental requests related to the Medicaid program. This will allow the Committee to consider any such adjustments when it is aware of the overall requirements to balance the budget.

Supplemental # 2 - Variable Vehicle Charge

	Request	Recommendation
Total - General Fund	\$0	(\$64,134)

Does JBC staff believe the request meets the Joint Budget Committee's supplemental criteria?	YES
[An emergency or act of God / a technical error in the appropriation / new data / an unforeseen contingency]	
This supplemental request is based on new data related to vehicle-related costs and utilities expenses.	

Department Request: The Department requests a shift of \$15,490 General Fund from one line item to another:

**DEPARTMENT OF EDUCATION
FY 2006-07 SUPPLEMENTAL RECOMMENDATION
JBC WORKING DOCUMENT - SUBJECT TO CHANGE**

- ▶ The Department pays the Department of Personnel and Administration for the costs of gasoline and vehicle maintenance (called "variable vehicle" costs) for its 12 leased vehicles. The Department indicates that these cost rates increased by a (weighted) average of 28.3 percent from 7/1/06 to 7/1/07. In addition, School staff are traveling more miles (an increased by 18.4 percent for the first five months of FY 2006-07 compared to FY 2005-06) to provide more technical assistance to school districts and to transport students to vocational education programs and work study jobs in the community. The Department pays for these costs from its Operating Expenses line item, so it is requesting a **\$15,490 increase in the appropriation for Operating Expenses to cover recent increases in variable vehicle costs.**
- ▶ The Department a **\$15,490 decrease in the appropriation for Utilities in order to offset the requested increase.**

Staff Recommendation: Staff recommends the following:

- ▶ **Approve the requested \$15,490 increase for operating expenses** to cover recent increases in variable vehicle costs. The majority of the Department's operating expenses relate to food services, educational supplies, facility and equipment repairs and maintenance, custodial and laundry services, communication services, office supplies and postage, and vehicle-related expenses. As the School provides residential services to children with vision, hearing, and other disabilities, staff does not believe that it is appropriate to force the School to absorb recent increases in gasoline and maintenance costs. Further, the School is statutorily charged with serving as a resource to school districts, state institutions, and other approved education programs. Staff believes that it is important that School staff be available to provide on-site technical assistance to school districts who are providing services to children who would otherwise be eligible to receive residential services at the School.
- ▶ **Reduce the Utilities line item appropriation by more than requested by the School (\$79,624 compared to the requested \$15,490).** The Department provided detailed rate and utilization information and projections. The following table provides a recent history of the School's utility expenses and a comparison of the Department's projected FY 2006-07 expenditures to the existing appropriation.

**DEPARTMENT OF EDUCATION
FY 2006-07 SUPPLEMENTAL RECOMMENDATION
JBC WORKING DOCUMENT - SUBJECT TO CHANGE**

Colorado School for the Deaf and the Blind Utilities Expenses						
Service	FY 2003-04 Actual	FY 2004-05 Actual	FY 2005-06 Actual	FY 2006-07		
				Approp.	Estimate*	Change
Natural gas	\$207,527	\$234,550	\$231,239	\$342,121	\$229,029	(\$113,092)
Electricity	119,126	133,532	145,001	153,900	147,240	(6,660)
Water and sewer	<u>35,770</u>	<u>59,601</u>	<u>70,979</u>	<u>81,697</u>	<u>56,825</u>	<u>(24,872)</u>
Total	362,423	427,683	447,219	577,718	433,094	(144,624)

*Estimate is based on actual usage December 2005 through November 2006.

Given the extreme temperatures experienced over the last month, staff is not comfortable recommending a reduction as high as \$144,624 (which would assume the same usage pattern from December 2006 through June 2007 as last year). Instead, based on information provided by the School, staff recommends reducing the Utilities line item by \$79,624, leaving a \$65,000 "cushion" should the current weather patterns persist. The School generally utilizes any moneys that may revert from this line item at fiscal year-end to cover the costs of utilities-related or energy efficiency projects.

Non-Prioritized, Staff-Initiated Supplemental #1 - Potential Adjustments to Read-to-Achieve Grant Program Appropriations

	Request	Recommendation
Total - Cash Funds Exempt	\$0	\$0

Does JBC staff believe the request meets the Joint Budget Committee's supplemental criteria?	YES
[An emergency or act of God / a technical error in the appropriation / new data / an unforeseen contingency]	
This supplemental is related to new data concerning tobacco settlement payments.	

Potential Change to Appropriation: The Committee has been informed that the actual amount of tobacco settlement funds available to transfer to various funds for FY 2006-07 is lower than was anticipated at the time appropriations for FY 2006-07 were set. The Read-to-Achieve Grant Program awards funds to schools to provide intensive reading programs for second- and third-grade students whose literacy and comprehension skills are below grade level. Schools may utilize the funds for in-class support and assistance, one-on-one school day pull-out programs, after school tutoring programs, or summer programs. The primary source of funds for the program is the Tobacco Litigation Settlement Cash Fund. The Read-to-Achieve Grant Program currently receives five percent of the annual amount of settlement moneys received by the State, up to a

**DEPARTMENT OF EDUCATION
FY 2006-07 SUPPLEMENTAL RECOMMENDATION
JBC WORKING DOCUMENT - SUBJECT TO CHANGE**

maximum of \$8.0 million. Last Spring, projections indicated that \$4,369,567 would be transferred to the Read-to-Achieve Grant Program for FY 2006-07. However, only \$4,002,026 is available for this program for FY 2006-07 -- a shortfall of \$367,541.

Staff Recommendation: Staff does not recommend reducing the appropriation that authorizes the Department to spend moneys from the Read-to-Achieve Grant Program based on the reduction in tobacco settlement moneys. It is staff's understanding that the Department has already spent the full \$4,369,567 cash funds exempt authorized by the existing FY 2006-07 appropriation. Department staff indicate that the balance in the Read-to-Achieve Cash Fund is adequate to cover the \$367,541 difference between the projected transfer of tobacco settlement funds and the actual transfer¹.

Non-Prioritized, Staff-Initiated Supplemental #2 - Adjustments to Appropriations Related to the State Charter School Institute

	Request	Recommendation
Total - Cash Funds Exempt	\$0	(\$681,773)
FTE	0.0	(0.2)

Does JBC staff believe the request meets the Joint Budget Committee's supplemental criteria?	YES
[An emergency or act of God / a technical error in the appropriation / new data / an unforeseen contingency]	
This supplemental is based on new student enrollment data and more recent estimates of staffing levels.	

Background Information: House Bill 04-1362 created the State Charter School Institute as an independent agency in the Department of Education. The Institute is allowed to authorize "institute charter schools" located within a school district's boundaries if the school district has not retained exclusive authority to authorize charter schools. The bill also created a board to oversee the operations of the Institute, and permits the Institute to hire staff and contract for services.

The Department is directed to withhold a portion of the State Share of Districts' Total Program funding from the school district where an institute charter school is located and to forward the withheld amount to the Institute. The Department is permitted to retain up to 2.0 percent of the amount withheld from the State Share "as reimbursement for the reasonable and necessary costs to the department to implement the provisions of [Section 22-30.5-501 et seq., C.R.S.]" (see Section 22-30.5-513 (4) (a), C.R.S.). The bill also permits the Institute to retain up to 3.0 percent of the amount withheld from the State Share for the "actual costs incurred

¹ The balance in the Read-to-Achieve Cash Fund as of July 1, 2006 was \$3,088,837.

**DEPARTMENT OF EDUCATION
FY 2006-07 SUPPLEMENTAL RECOMMENDATION
JBC WORKING DOCUMENT - SUBJECT TO CHANGE**

by the institute in providing necessary administration, oversight, and management services" to institute charter schools (see Sections 22-30.5-513 (2) (b) and (4) (a), C.R.S.).

For FY 2004-05 and FY 2005-06, appropriations to the Department only included spending authority for the Institute to spend gifts, grants, and donations. The FY 2006-07 Long Bill includes four new line items related to the State Charter School Institute:

- ▶ State Charter School Institute Administration, Oversight, and Management - This line item provides spending authority to the Institute to spend up to 3.0 percent of the amount withheld from the State Share for providing the necessary administration, oversight, and management services to institute charter schools.
- ▶ Institute Charter Schools' Categorical Funding - This line item provides spending authority to the Institute to forward categorical funding, as appropriate, to Institute charter schools.
- ▶ Direct Administrative and Support Services Provided by the Department to the State Charter School Institute - This line item provides spending authority for the Department to receive funds from the Institute out of the above line item to cover the costs incurred by the Department in providing administrative or other support services directly to the Institute -- services that would normally be performed at the school district level (e.g., payroll, accounting, purchasing, human resources, contracting, etc.).
- ▶ Department Implementation of Section 22-30.5 501 et seq., C.R.S. - This line item provides spending authority to the Department to spend up to 2.0 percent of the amount withheld from the State Share for performing Department-level duties associated with the implementation of H.B. 04-1362.

Staff Recommendation: The FY 2006-07 appropriations related to the Institute were based on a projection of the number of Institute charter schools, the total enrollment for these schools, and the statewide average per pupil funding. Given the significant variance between these projections and actual enrollment, staff recommends adjusting three of the four appropriations to better reflect anticipated expenditures. The following table provides a comparison of the existing appropriations (and the associated underlying data) and the recommended adjusted appropriations.

**DEPARTMENT OF EDUCATION
FY 2006-07 SUPPLEMENTAL RECOMMENDATION
JBC WORKING DOCUMENT - SUBJECT TO CHANGE**

State Charter School Institute: Recommended Funding Adjustments for FY 2006-07			
Description	Existing Appropriation	Recommended Adjusted Appropriations	Recommended Supplemental Adjustments
Number of Schools	7	7	
Funded Pupil Count	4,000.0	2,532.0	
Per pupil funding	\$6,376.05	\$6,228.11	
Total transfer from State Share line item	\$25,504,200	\$15,769,564	
State Charter School Institute Administration, Oversight, and Management (3.0 percent)	\$765,125	\$473,087	(\$292,038)
FTE*	6.5	5.0	(1.5)
Direct Administrative and Support Services Provided by the Department to the State Charter School Institute**	\$255,042	\$60,000	(\$195,042)
FTE**	2.0	1.3	(0.7)
Department Implementation of Section 22-30.5 501 et seq., C.R.S. (2.0 percent)	\$510,084	\$315,391	(\$194,693)
FTE	3.0	5.0	2.0

* Recommended adjustment based on more recent staffing information provided by the Institute Director to the Joint Budget Committee at the December 12, 2006 budget hearing.

** The existing appropriation was based on staff's rough estimate that one-third of the Institute's funds would be available to cover the costs of direct services. The recommended adjusted appropriation is based on the Department's most recent estimate of the expenses it will incur to provide services to the Institute this fiscal year.

Non-Prioritized, Staff-Initiated Supplemental #3 - Emeritus Retirement

Request	Recommendation
Total - General Fund	\$0 (\$7,785)

Does JBC staff believe the request meets the Joint Budget Committee's supplemental criteria?	YES
[An emergency or act of God / a technical error in the appropriation / new data / an unforeseen contingency]	
This supplemental is based on more recent information data concerning retirement payments.	

**DEPARTMENT OF EDUCATION
FY 2006-07 SUPPLEMENTAL RECOMMENDATION
JBC WORKING DOCUMENT - SUBJECT TO CHANGE**

This line item provides supplemental retirement payments to eligible K-12 and higher education teachers, as required pursuant to Section 22-64-119, C.R.S. The FY 2006-07 Long Bill appropriation for this purpose is \$29,392 based on the number of individuals who were receiving monthly payments at that time. In response to an inquiry from staff, **the Department has indicated that** based on expenditures through December 2006 (\$12,941.62), and current monthly payments (\$1,444.09), **only \$21,606.16 will be expended in FY 2006-07. Thus, staff recommends reducing this appropriation by \$7,785 General Fund.**

Non-Prioritized , Staff-Initiated Supplemental #4 -Small Attendance Center Aid

	Request	Recommendation
Total - Cash Funds Exempt	\$0	\$71,040

Does JBC staff believe the request meets the Joint Budget Committee's supplemental criteria?

YES

[An emergency or act of God / a technical error in the appropriation / new data / an unforeseen contingency]

This supplemental is based on more recent information data concerning student enrollment.

State Funding for Categorical Programs. Programs designed to serve particular groups of students (e.g., students with limited proficiency in English) or particular student needs (e.g., transportation) have traditionally been referred to as "categorical" programs. Section 17 of Article IX of the Colorado Constitution requires the General Assembly to increase total state funding for all categorical programs annually by at least the rate of inflation plus one percent for FY 2001-02 through FY 2010-11, and by at least the rate of inflation for subsequent fiscal years. This constitutional provision also defines "categorical programs" to include a number of existing programs, including small attendance centers.

Small Attendance Center Aid. Pursuant to Section 22-54-122, C.R.S., school districts that operate a school with fewer than 200 pupils that is located twenty or more miles from any similar school in the same district are eligible to receive additional state funding to offset the unique costs associated with operating such schools. The amount of additional state aid that a district is eligible to receive is based on the number of eligible schools it operates, the number of pupils in each eligible school, and the district's per pupil funding. Similar to other categorical programs, whether a school district eligible for small attendance center aid actually receives the maximum reimbursement allowable is subject to appropriation:

"The general assembly shall appropriate annually an amount for small attendance center aid to be distributed pursuant to the formula in subsection (2) of this section. In the event the amount of money appropriated by the general assembly is less than the amount of aid authorized by this section to all districts, the amount to be distributed to each school district

**DEPARTMENT OF EDUCATION
FY 2006-07 SUPPLEMENTAL RECOMMENDATION
JBC WORKING DOCUMENT - SUBJECT TO CHANGE**

shall be in the same proportion as the amount that the appropriation bears to the total amount of aid for all districts." [Section 22-54-122 (3), C.R.S.]

However, the amounts appropriated for small attendance center aid annually since FY 1998-99 have provided adequate funding to reimburse eligible districts for the full amount statutorily allowed.

The FY 2006-07 appropriation of \$890,777 was based on the actual number of districts and small attendance centers that were eligible to receive additional state funding under the statutory formula in FY 2005-06. **The Department has indicated that the amount needed to fully fund the amount schools are eligible to receive in FY 2006-07 is \$961,817.** This significant increase is due to the fact that another elementary school (Caliche Elementary in Logan - Valley RE-1) became eligible for small attendance center aid. **As a result, the Department will need to pro rate the available funding, and each eligible school will receive 93 percent of the amount it is statutorily eligible to receive.** This is similar to the pro ration that occurs in other categorical programs.

Staff Recommendation. Due to the fact that this pro ration affects individual school building budgets (13 schools in the current fiscal year), **staff recommends increasing the cash funds exempt appropriation from the State Education Fund for small attendance center aid by \$71,040.** Please note that this action, however, would increase the amount that the General Assembly is required to appropriate for categorical programs in future fiscal years. **If the Committee wishes to fully fund small attendance center aid for FY 2006-07 without increasing future constitutionally required increases, staff offers an alternative solution:**

- ▶ Beginning in FY 2006-07, when the Department of Education audits school districts and recovers overpayments related to public school transportation costs, these moneys are deposited into the Public School Transportation Fund (instead of the State Public School Fund). The Department has recovered \$455,097 to date. The Committee could consider introducing legislation to amend Section 22-51-103, C.R.S., to allow the General Assembly to appropriate moneys from this fund beginning in FY 2006-07 (rather than FY 2007-08).
- ▶ Appropriate \$71,040 from the Public School Transportation Fund for FY 2006-07, and reduce the appropriation from the State Education Fund for public school transportation by the same amount, thus maintaining the current appropriation level for public school transportation.
- ▶ Regardless of whether the above two changes are made, staff also recommends adding statutory language to clarify that appropriations from the Public School Transportation Fund shall not be considered part of "total state funding for all categorical programs" for purposes of Amendment 23. Staff considers this a technical amendment to clarify that when the Department is authorized to redistribute moneys that have been recovered from district audits, such amounts should not be considered an increase in state funding for transportation.

**DEPARTMENT OF EDUCATION
FY 2006-07 SUPPLEMENTAL RECOMMENDATION
JBC WORKING DOCUMENT - SUBJECT TO CHANGE**

If the Committee chooses this approach, staff recommends increasing funding for small attendance center aid through the same bill (rather than through the supplemental bill).

Statewide Common Policy Supplemental Requests

These requests are not prioritized and are not analyzed in this packet . These items will be acted on separately by the JBC when it makes a decision regarding common policies.

Education Department's Portion of Statewide Supplemental Request	General Fund	Cash Funds	Cash Funds Exempt	Federal Funds	Total	FTE
1. Administrative Law Judge Services	\$0	\$10,017	\$37,684	\$0	\$47,701	0.0
2. Communication Services Payments	191	0	0	0	191	0.0
3. Vehicle Lease Payments	(21,768)	0	0	0	(21,768)	0.0
4. Computer Center Services	(9,233)	0	0	0	(9,233)	0.0
5. Capitol Complex Leased Space	46,133	19,459	(6,388)	(12,874)	46,330	0.0
6. Multiuse Network Payments	(11,760)	0	0	0	(11,760)	0.0
7. Risk Management and Property Funds	43,029	4,011	5,735	35,124	87,899	0.0
8. Workers' Compensation	(78,730)	(7,418)	(11,459)	(64,961)	(162,568)	0.0
Total Statewide Supplemental Requests for Education Department	(32,138)	26,069	25,572	(42,711)	(23,208)	0.0

Staff Recommendation: The staff recommendation for these requests is pending committee approval of common policy supplementals. **Staff asks permission to include the corresponding appropriations in the Department's supplemental bill when the committee approves this common policy supplemental.** If staff believes there is reason to deviate from the common policy, staff will appear before the committee later to present the relevant analysis.

Additional Information

The following information is provided for the purpose of informing members about the status of one line item. Please note that the Department did not submit a supplemental request for this line item, and staff is not making a recommendation to change funding. Staff simply wants to make sure members have the information they need should they choose to make mid-year funding adjustments.

**DEPARTMENT OF EDUCATION
FY 2006-07 SUPPLEMENTAL RECOMMENDATION
JBC WORKING DOCUMENT - SUBJECT TO CHANGE**

Additional State Aid Related to Locally Negotiated Business Incentive Agreements.

Background Information. Since 1990², school districts have had the authority to negotiate incentive agreements with new or expanded businesses as a means of promoting economic development³. State law allows school districts, as well as cities and counties, to negotiate with taxpayers to forgive up to 50 percent of the property taxes levied on personal property attributable to a new or expanded business facility. A school district that negotiates such an agreement is eligible for additional state aid equal to the property tax revenues which are foregone as part of the agreement.⁴ The state "backfill" for foregone property tax revenues for any single facility is limited to ten years. Pursuant to S.B. 03-248, however, local school boards have not been allowed to enter into any new business incentive agreements since May 22, 2003.

The annual cost of backfilling for locally-negotiated business incentive agreements has ranged from \$67,250 in FY 1994-95 to \$2,785,645 in FY 2002-03. However, in FY 2002-03, the appropriation fell \$784,157 short of funding the required state aid associated with these agreements. The Department was thus required to reduce the state aid for all districts by the amount of the shortfall. Similar recisions were required in FY 2001-02 (\$244,237), and in FY 2003-04 (\$393). Pursuant to S.B. 05-200, a statewide recision is no longer necessary when the appropriation falls short. Instead, the shortfall only affects those districts that are receiving additional state aid as a result of an incentive agreement. The FY 2005-06 appropriation of \$1,140,015 fell short by \$741,125.

FY 2006-07 Appropriation. The FY 2006-07 appropriation for the additional state aid required to backfill existing agreements is \$1,140,015 General Fund. **At the time this appropriation was determined, it was estimated that it would cover 51.7 percent of the required backfill** (estimated at \$2,204,257). In response to a staff inquiry, the Department has indicated that based on more recent assessed valuation data, **the actual amount required to "backfill" such agreements is only \$1,750,372. Thus, the existing appropriation will cover 65.1 percent of the required backfill - a shortfall of \$610,357.** The following table lists those agreements still active, along with the additional state aid estimated to be required to offset property tax revenues that are foregone as part of such agreements.

² Senate Bill 90-118 (Wells/Arveschoug), "Concerning the Authority of Local Governments to Negotiate Incentive Payments to Taxpayers Who Establish New Business Facilities or Who Expand Existing Business Facilities".

³ See Section 22-32-110 (1) (ff) and (gg), C.R.S.

⁴ See Section 22-54-106 (8), C.R.S.

**DEPARTMENT OF EDUCATION
FY 2006-07 SUPPLEMENTAL RECOMMENDATION
JBC WORKING DOCUMENT - SUBJECT TO CHANGE**

Actual Additional State Aid Required to Offset Property Tax Revenues Foregone as a Result of Locally Negotiated Business Incentive Agreements (BIAs): FY 2006-07					
County	School District	Company	Assessed Value Attributable to Incentive	Increase in State Aid	Percent of Total
El Paso	Harrison	Atmel Corporation	\$9,126,263	\$92,015	5.26%
El Paso	Harrison	Sally Foster, Inc.	504,057	5,082	0.29%
El Paso	Fountain	Front Range Power Company	27,673,600	272,364	15.56%
El Paso	Colorado Springs	Intel Corporation	62,442,006	791,671	45.23%
El Paso	Lewis-Palmer	Synthes	4,220,023	48,876	2.79%
Fremont	Florence	Holnam, Inc.	52,859,970	401,816	22.96%
Morgan	Ft. Morgan	Leprino Foods	2,316,820	31,371	1.79%
Weld	Windsor	Kodak/Polychrome Graphics	2,352,116	32,133	1.84%
Weld	Windsor	Kodak	5,017,163	68,542	3.92%
Weld	Greeley	Structural Component Systems, Inc.	436,560	6,502	0.37%
TOTAL				1,750,372	100.00%

Pursuant to S.B. 05-200 [Section 22-54-106 (8) (e), C.R.S.], if the General Assembly does not appropriate an amount sufficient to fully fund the additional state aid related to business incentive agreements, the Department is required to reduce state aid *for those districts eligible to receive such aid* (rather than reducing aid for all school districts). For example, for FY 2006-07, the Department will be required to decrease the extra state aid noted for each district in the above table by 34.9 percent (e.g., El Paso - Harrison would receive \$59,930 of the \$92,016 identified above). Please note, however, that districts that have entered into these agreements typically include a hold harmless provision in the agreement. Thus, when the Department rescinds a portion of these districts' funding related to the agreements, the tax credit provided to the business is reduced by the same amount in order to hold the district harmless.

Potential Funding Adjustment. If the General Assembly still intends to cover only 51.7 percent of the required backfill for FY 2006-07 (\$904,942), it could reduce the existing appropriation by \$235,073.

**DEPARTMENT OF EDUCATION
FY 2006-07 SUPPLEMENTAL RECOMMENDATION
JBC WORKING DOCUMENT - SUBJECT TO CHANGE**

Previously Approved 1331 Supplemental - Refinance Public School Funding for *FY 2005-06*

	Previously Approved for FY 2005-06	Changes That Will Be Reflected in Supplemental
Total	\$0	\$0
General Fund	(2,888,622)	(2,888,622)
Cash Funds Exempt - State Education Fund	2,888,622	2,888,622

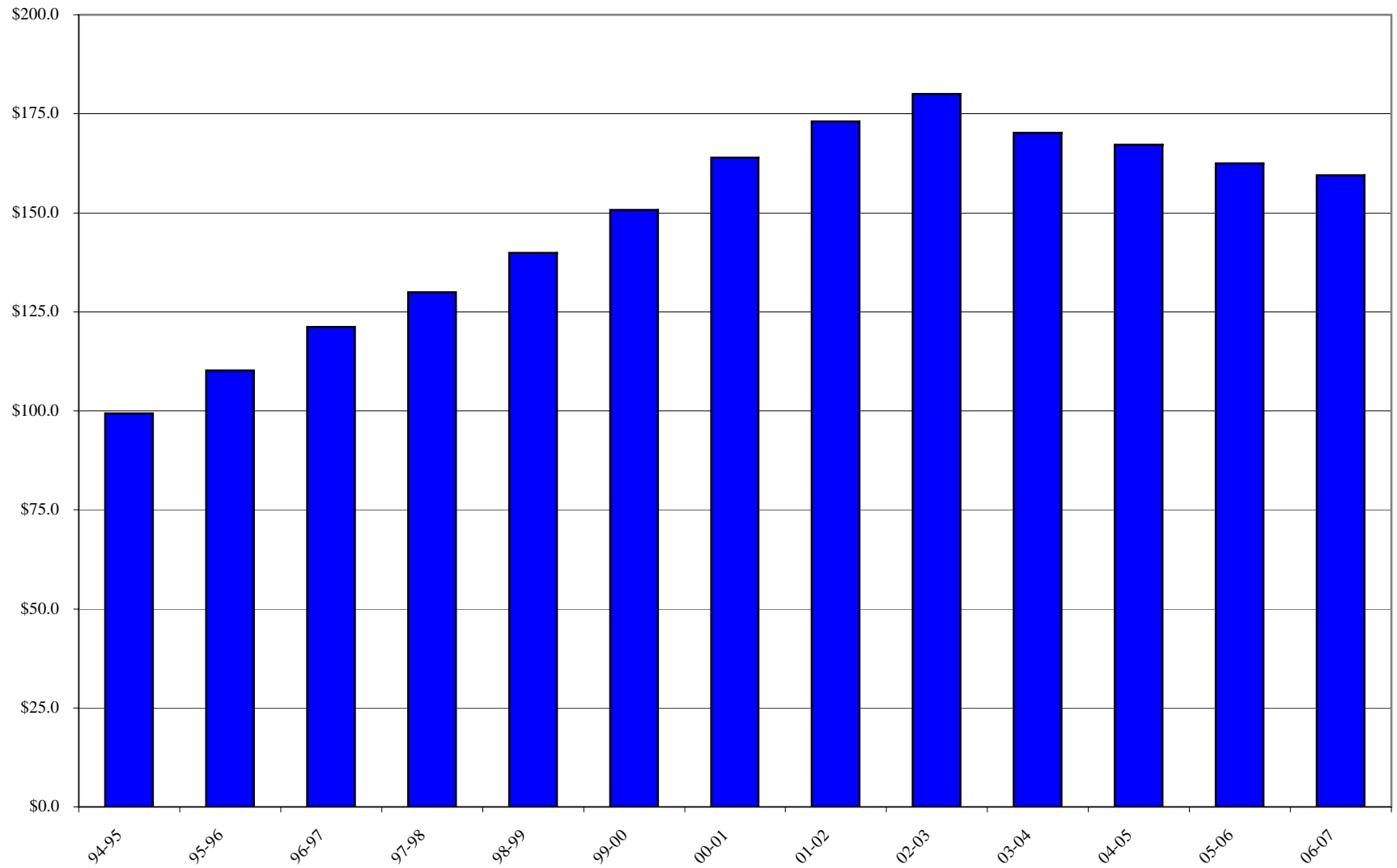
Description of Supplemental. In June 2006, the Joint Budget Committee approved a number of supplemental requests for *FY 2005-06*. Primarily, those requests that required an increase in General Fund appropriations were from the Department of Human Services (for programs for individuals with developmental disabilities) and the Department of Health Care Policy and Financing (Medicare Part D payment). The Director of the Office of State Planning and Budgeting sent a letter to the Joint Budget Committee, dated June 19, 2006, requesting that the Committee offset any approved FY 2005-06 supplemental requests by reducing the General Fund appropriation to the Department of Education for the State Share of Districts' Total Program Funding, and increasing the State Education Fund appropriation for such purpose by the same amount. The Committee approved this financing proposal.

Thus, staff will prepare an adjustment to FY 2005-06 appropriations to the Department of Education for the State Share of Districts' Total Program Funding, adjusting these fund sources as outlined in the above table by \$2,888,622 (based on the supplementals approved by the Committee last June). However, **staff intends to include this adjustment in the same bill that reflects adjustments to appropriations from the General Fund Exempt Account (based on actual revenues for FY 2005-06)**. Thus, this change will likely be included as a section in the FY 2007-08 Long Bill, rather than as a section of the FY 2006-07 supplemental bill for the Department of Education.

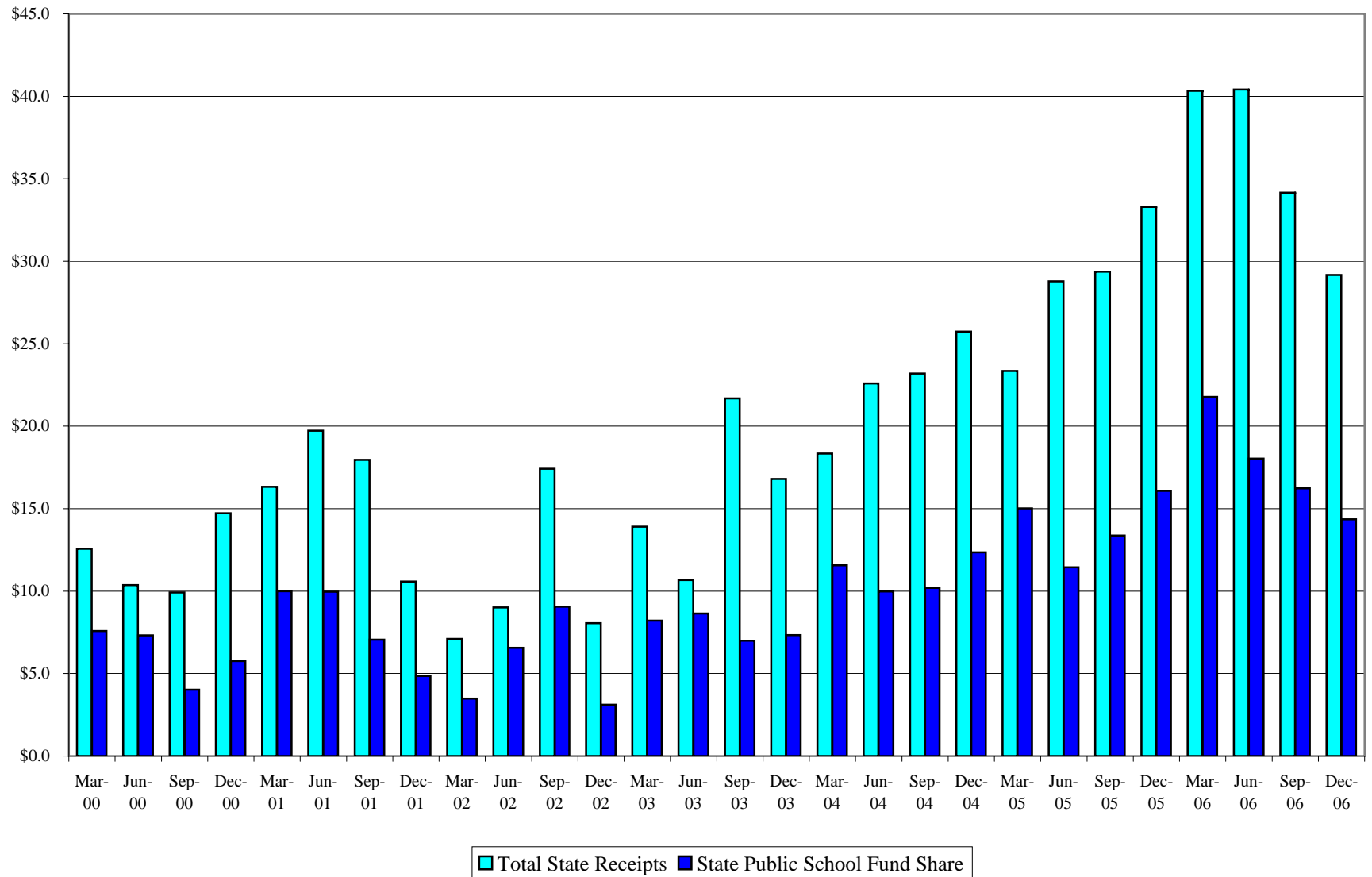
Districts Requiring the Largest Mid-year Increases in State Funding

District	FY 2005-06 Funded Pupil Count (including on-line)	FY 2006-07 Funded Pupil Count (including on-line)				Resulting Change in Total Program Funding			
		Anticipated Funded Pupil Count	Actual Funded Pupil Count	Difference	Percent Difference	Total Funding	Local Property Taxes	Specific Ownership Taxes	State Share of Funding
Baca - Vilas	1,899.1	2,327.7	4,057.5	1,729.8	74.3%	\$ 10,310,723	\$ 6,487	\$ 1,104	\$ 10,303,132
El Paso - Falcon	10,132.5	10,770.0	11,581.0	811.0	7.5%	4,788,982	350,097	(19,186)	4,458,071
Boulder - Boulder	26,790.0	26,812.0	26,914.0	102.0	0.4%	661,272	(2,001,799)	(610,616)	3,273,686
Mesa - Mesa Valley	19,655.5	19,835.5	20,207.0	371.5	1.9%	1,257,451	158,094	(35,080)	1,134,438
El Paso - Cheyenne Mountain	4,318.0	4,368.0	4,511.0	143.0	3.3%	891,738	76,337	(161,104)	976,505
Larimer - Poudre	23,763.5	23,911.5	24,182.5	271.0	1.1%	336,322	(167,780)	(469,469)	973,572
Jefferson - Jefferson	82,360.8	81,812.8	81,825.5	12.7	0.0%	(614,133)	(478,753)	(1,089,236)	953,856
Larimer - Thompson	14,304.6	14,253.3	14,402.0	148.7	1.0%	853,583	253,315	(352,980)	953,248
Garfield - Rifle	3,800.0	3,902.0	4,055.0	153.0	3.9%	863,553	211,691	(11,983)	663,846
Summit - Summit	2,715.0	2,734.5	2,776.0	41.5	1.5%	253,554	(261,339)	(47,699)	562,592
Morgan - Brush	1,472.2	1,472.8	1,483.4	10.6	0.7%	70,416	(395,799)	(47,406)	513,621
La Plata - Durango	4,503.3	4,469.9	4,542.5	72.6	1.6%	407,160	215,163	(309,625)	501,622
Weld - Windsor	3,186.0	3,288.5	3,452.0	163.5	5.0%	879,050	465,201	(46,808)	460,656
Montrose - Montrose	5,533.0	5,651.5	5,734.0	82.5	1.5%	672,078	266,570	(1,649)	407,157
Arapahoe - Littleton	15,619.9	15,500.4	15,508.4	8.0	0.1%	10,856	(286,476)	(69,783)	367,115
San Miguel - Telluride	605.5	603.8	632.0	28.2	4.7%	225,948	(46,325)	(29,949)	302,223
Statewide	741,327.7	750,306.8	753,338.0	3,031.2	0.4%	6,702,290	(3,273,588)	(11,125,286)	21,101,164

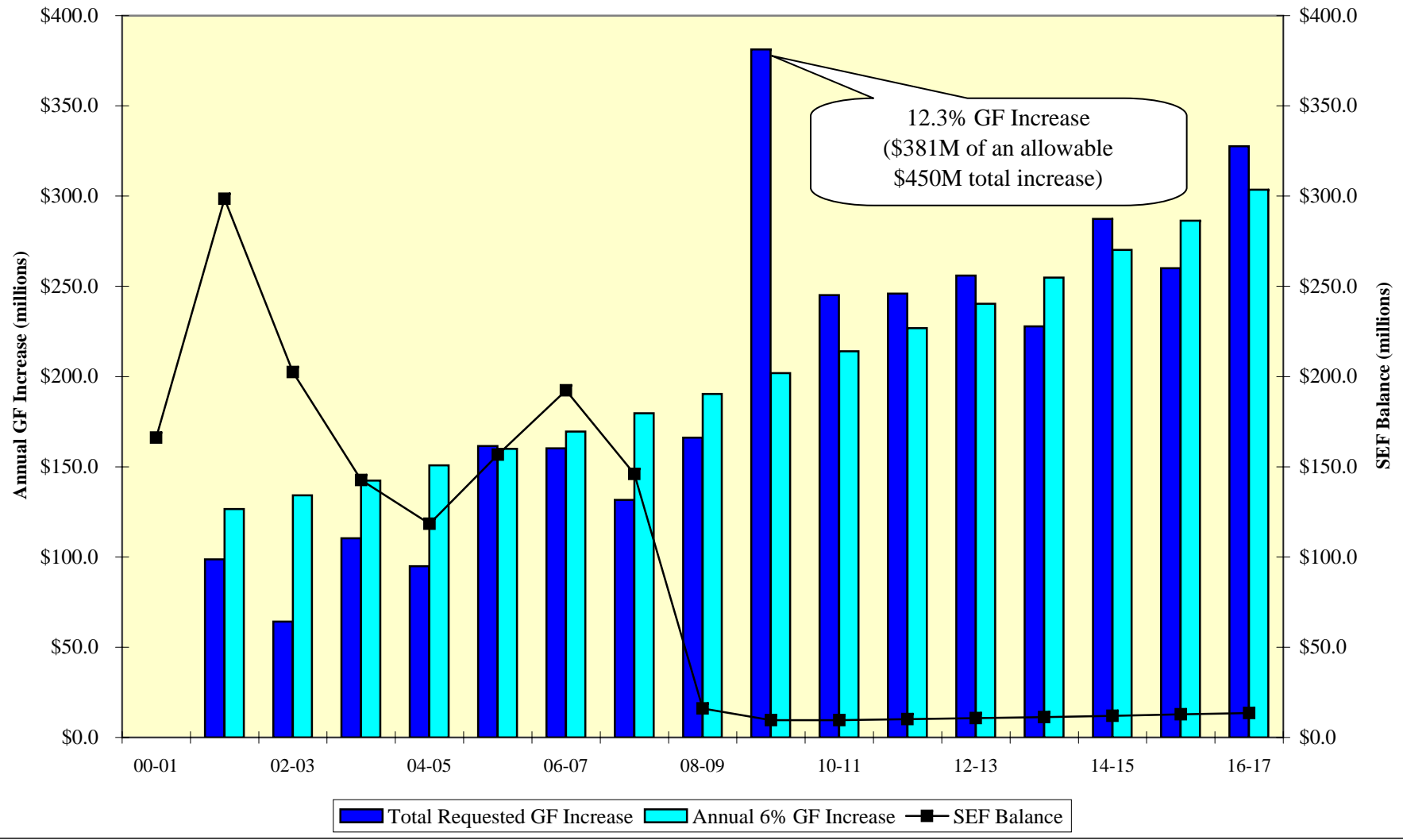
Specific Ownership Tax Revenues for School Finance (\$ millions)



Quarterly Federal Mineral Lease Revenues (\$ millions)



**Complying With Amendment 23:
Scenario 1 - Owens' Administration Request for FY 2006-07 and FY 2007-08**



**Complying With Amendment 23:
Scenario 2 - Smoothing Out the Annual GF Increases**

