



October 3, 2023

TO: Interested Persons

FROM: Anna Gerstle, Senior Fiscal Analyst, 303-866-4375

SUBJECT: Financing Public Schools for FY 2023-24

Summary

This memorandum summarizes the primary funding changes for school finance that were enacted during the 2023 legislative sessions. Several bills enacted substantively impact financing of public schools in Colorado, including:

- Senate Bill 23-287, which provided funding for school districts in FY 2023-24 and made a variety of changes related to education programs; and
- Senate Bill 23-099, which provided additional funding for special education.

Contents

Summary	1
Overview	1
School Finance Act Funding	2
Base Per Pupil Funding	3
Budget Stabilization Factor	3
Formula Factors	5
At-Risk Students	6
CSI Pupil Count	6
Categorical Programs	6
Rural Schools Funding	7
State Match for MLO Revenue	7
Other Provisions	8

The legislature also referred Proposition HH to voters in November that, if approved, would reduce property taxes compared to what would be paid otherwise and allow the state to retain additional revenue. This memorandum does not address the potential impacts of Proposition HH on school funding, as it is not current law.

Estimates in this memorandum will be adjusted during the 2024 legislative session through the enactment of the Colorado Department of Education (CDE) supplemental bill, based on actual pupil counts and local property tax collections.

Overview of School Finance Funding

School Finance Act. The School Finance Act is expected to provide about \$9.1 billion in total program to school districts in FY 2022-23. The state provides about 55 percent of this amount, or about \$5.0 billion, while local property and specific ownership taxes are projected to provide about \$4.1 billion.



Change from FY 2022-23. School district funding is expected to increase by 7.9 percent, or \$665 million in FY 2023-24, compared to the prior year. The change in funding will come from a \$643.5 million increase in school district property and specific ownership taxes, and a \$21.5 million increase in state funding for school finance.

Base per pupil funding. SB 23-287 established the base per pupil funding amount at \$8,076.41, which reflects an 8.0 percent inflation rate, as required by Amendment 23.

Statewide average per pupil funding. In FY 2023-24, statewide average per pupil funding is expected to increase from \$9,596 to \$10,614, an increase of 10.6 percent, or \$1,018.

Formula changes. SB 23-287 made two changes to the school finance formula:

- applied the averaging provisions that currently apply to school districts to state Charter School Institute (CSI) schools; and
- delayed implementation of the new at-risk measure until the FY 2024-25 school year.

Special education funding. SB 23-287 provided \$40.2 million for Tier B special education students and \$10.0 million to be distributed to preschool providers that are school districts or charter schools to ensure that they are able to meet federal special education maintenance of effort requirements

Funding for rural schools. SB 23-287 provided \$30 million in FY 2023-24 to CDE to be distributed to rural school districts and CSI schools.

Additional changes. SB 23-287 made a variety of technical, administrative, and funding changes to education-related programs. These changes are discussed in the Other Provisions section below.

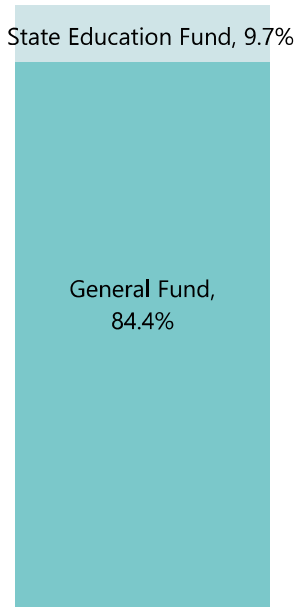
School Finance Act Funding

The Public School Finance Act of 1994 is the mechanism through which school districts receive state aid and local funds for operating purposes. In FY 2023-24, the act is expected to provide \$9.1 billion to school districts, of which the state is expected to provide \$5.0 billion (55 percent), and local revenue sources provide \$4.1 billion (45 percent).

Sources of state funding. The General Assembly appropriates money for the state share of school finance from three funds: the General Fund, the State Education Fund, and the State Public School Fund, as illustrated in Figure 1.



Figure 1
School Finance Fund Sources



General Fund. The General Fund is the primary source for state aid to schools, accounting for 84 percent of the state share, or \$4.2 billion, in FY 2023-24.

State Education Fund. The State Education Funding provides the next largest share at 10 percent, or \$485.6 million. This fund was created by Amendment 23 and receives a portion of state income tax, which is exempt from the state TABOR limit. Money in the fund can only be spent for certain educational purposes specified in the state constitution.

State Public School Fund. The State Public School Fund provides the remaining 6 percent, or \$295.8 million, in FY 2023-24. This fund consists of interest earned by the Public School Fund federal mineral leasing revenue dedicated by state law for public education, as well as a portion of marijuana tax revenue and rent and royalties from state school lands.

Base Per Pupil Funding

Amendment 23 requires that the General Assembly increase the statewide base per pupil funding amount by at least inflation each year. Inflation for the calendar year 2022 was 8.0 percent, and SB 23-287 increased the statewide base by \$598.25 to \$8,076.41. The statewide base is the dollar amount to which each district's size, cost of living, and personnel costs factors are applied in order to determine the district's per pupil funding.

An increase in the statewide base also triggers an increase in per pupil funding provided to districts for students enrolled in online or extended high schools. These amounts increased by the same percentage as the statewide base, or 8.0 percent, in FY 2023-24. As a result, online and extended high school per pupil funding increased from \$9,017 in FY 2022-23 to \$9,738 in FY 2023-24. After the application of the budget stabilization factor, this per pupil funding amount will be \$9,586 in FY 2023-24.

Budget Stabilization Factor

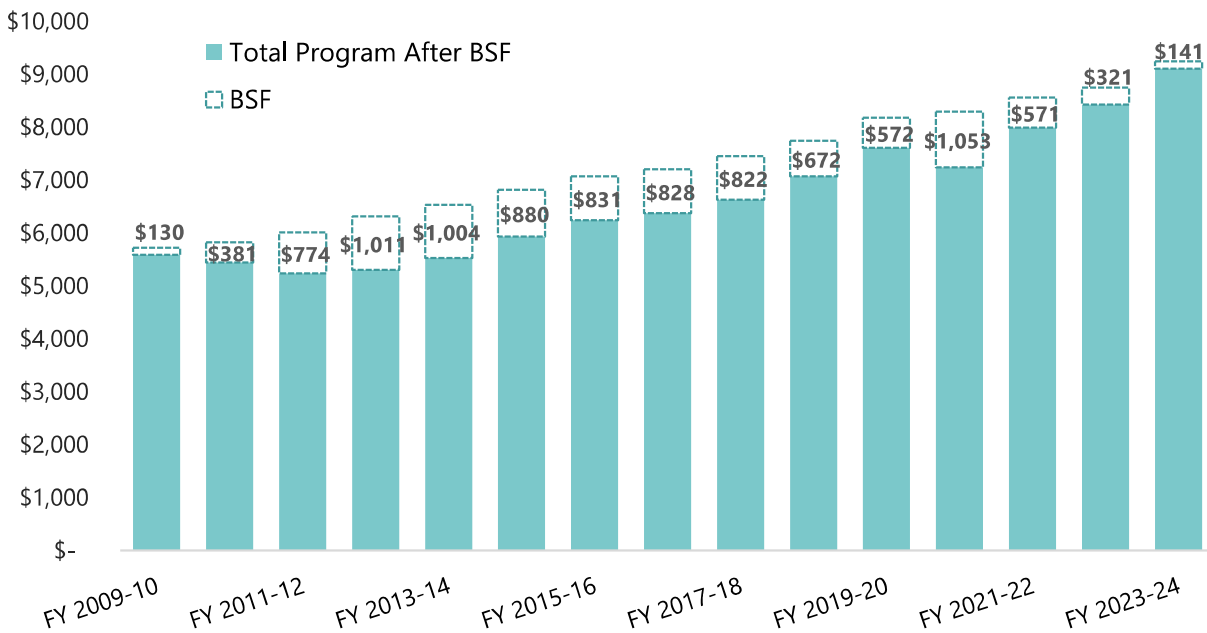
The School Finance Act includes a budget stabilization factor (BSF) that reduces the amount of state aid allocated to school districts based on the available state revenue and other budget priorities set by the General Assembly. The budget stabilization factor reduces total program funding by a specific percentage; for FY 2023-24, it is set to reduce each school district's total program funding by 1.56 percent, which amounts to an overall reduction in state aid of



\$141.2 million. The local share of school finance is not impacted. Without the budget stabilization factor, school finance funding would have been about \$9.2 billion in FY 2023-24.

For FY 2023-24, the budget stabilization factor decreased by \$180.0 million compared to FY 2022-23. Figure 2 illustrates the level of total program funding and the budget stabilization factor for all districts since it was implemented in FY 2009-10.

Figure 2
History of Budget Stabilization Factor



FY 2024-25. Under SB 23-287, the budget stabilization factor is eliminated beginning in FY 2024-25. Combined with the required inflationary increase and projected enrollment change, this is expected to increase overall funding, relative to FY 2023-24 initial appropriations, by \$511.1 million and raise per pupil funding by \$698. These changes are expected to be reflected in the 2024 Long Bill.

Application of Budget Stabilization Factor. Calculation of funding for an individual school district begins with the district’s total program funding level as determined by the statutory school finance formula. The budget stabilization factor is then applied to implement a specific percentage reduction in funding. Table 1 illustrates how the budget stabilization factor reduces funding for two school districts in FY 2023-24. The budget stabilization factor reduces funding for the Greeley and Hinsdale school districts by 1.55 percent, which decreases state aid for Greeley by \$3.7 million and Hinsdale by \$27,479. The local share is unaffected by the budget stabilization factor.



Table 1
Example of Budget Stabilization Factor Applications

School District	Before BSF			After BSF	
	Total Program	State Share	BSF (1.6%)	Total Program	State Share
Greeley	\$237,907,133	\$139,042,808	\$3,704,764	\$234,202,369	\$135,338,044
Hinsdale	\$1,764,604	\$576,091	\$27,479	\$1,737,125	\$548,612

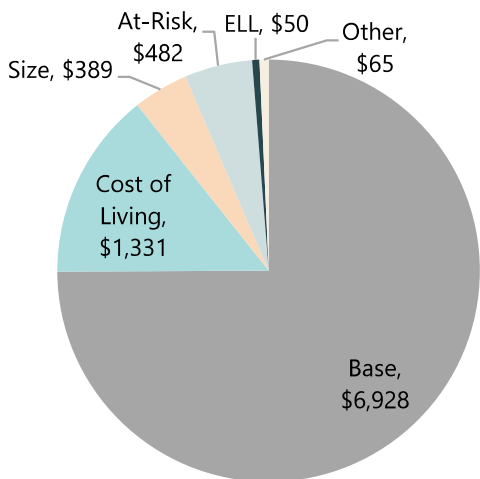
For some districts with limited state aid, the budget stabilization factor percent reduction may be less than 1.6 percent. There are 13 districts in this situation in FY 2023-24. These districts will not implement the full budget stabilization factor in FY 2023-24, and must instead buy out a portion of their categorical funding.

Contribution of Formula Factors

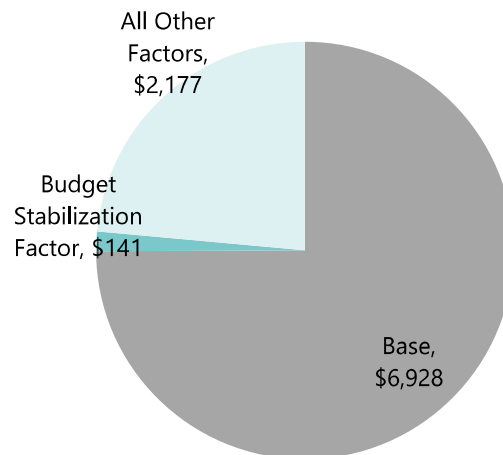
Figure 3 shows the allocation of funding through each factor in the school finance formula before the application of the budget stabilization factor, and after the addition of the budget stabilization factor. Because the General Assembly cannot decrease base per pupil funding, the budget stabilization factor has the effect of reducing only factor funding.

Figure 3
Formula Factors
Dollars in Millions

Before Budget Stabilization Factor
Total Program Funding: \$9.2 billion



After Budget Stabilization Factor
Total Program Funding: \$9.1 billion





At-Risk Students

House Bill 22-1202 established a new mechanism for counting at-risk students for the purposes of the school finance formula, to be used beginning in FY 2023-24. SB 23-287 delays implementation of the new measure for one year until FY 2024-25 and specifies that for the FY 2023-24 budget year, a district's at-risk funding is the greater of the district's FY 2022-23 at-risk funding or the amount calculated for FY 2023-24.

CDE is required to conduct pre-implementation data collection and modeling of the new measure. A report on the modeling, any issues, and any recommended legislative changes must be submitted to the General Assembly by January 5, 2024.

CSI Pupil Count

Under current law, a school district's pupil count is the greater of the current budget year pupil count, or an average of the current year and up to four prior year counts. Senate Bill 23-287 provides the same averaging provision for each charter school authorized by the state Charter School Institute (CSI). Pupil counts used in averaging do not include students enrolled in multi-district online schools. In FY 2023-24, this is estimated at \$8.5 million for 878.5 additional funded pupils, in addition to the total school finance figures provided elsewhere in this memorandum.

Categorical Programs

Categorical programs provide funding for specific educational purposes. Amendment 23 defines certain programs, including special education and pupil transportation, among others, as categorical programs and requires that state funding for these programs in the aggregate increase by at least inflation each year. Generally, funding for categorical programs is in the Long Bill, and substantive changes to the administration and financing of categorical programs are contained in other legislation.

SB 23-099. Beginning in FY 2023-24, the bill increased special education funding by \$40.2 million, to be used for Tier B distributions. Tier B distributions are for students with specific, identified disabilities. Table 2 shows the FY 2023-24 state appropriations for categorical programs. Note that some of these programs, such as special education and English language proficiency, receive federal funds in addition to the amounts shown in Table 2.



Table 2
Appropriations for Categorical Programs
Dollars in Millions

Categorical Program	FY 2022-23	FY 2023-24	Change	Percent Change
Special Education	\$300.2	\$340.4	\$40.2	13.4%
English Language Proficiency	\$25.3	\$31.3	\$6.0	23.9%
Transportation	\$62.8	\$68.4	\$5.6	8.9%
Vocational Education	\$28.2	\$30.5	\$2.3	8.0%
Gifted and Talented	\$13.0	\$14.7	\$1.7	12.9%
Expelled & At-Risk Student Services	\$9.5	\$9.5	\$0.0	0.1%
Small Attendance Centers	\$1.3	\$1.6	\$0.3	21.7%
Comprehensive Health Education	\$1.1	\$1.1	\$0.0	0.3%
Total	\$441.4	\$497.5	\$56.1	12.7%

Source: Joint Budget Committee Staff.

Rural Schools Funding

SB 23-287 provides \$30 million in FY 2023-24 to CDE to be distributed to rural school districts and CSI schools. Of that amount, 55 percent must be allocated to rural districts and 45 percent must be allocated to small rural districts, based on CDE designation, and funding is distributed on a per pupil basis. The funding must be used for nonrecurring expenses for improving student learning and the educational environment, which may include initiatives to attract educators.

State Match for Mill Levy Override Revenue

Beginning in FY 2022-23, SB 22-202 directed CDE to distribute to each eligible school district and institute charter school an amount of state matching money for local money raised through voter-approved mill levy overrides (MLOs). The bill includes a formula to calculate a district's MLO maximum, MLO capacity, and the amount of state funds for which the district is eligible.

SB 23-287 transferred \$23.4 million from the State Education Fund to the Mill Levy Override Match Fund in FY 2023-24 and specifies that beginning in FY 2022-23, CDE must not distribute funding to an eligible district if the sum of the district's override mills is greater than or equal to the district's override mill levy capacity. It is expected that 26 districts will receive funding in FY 2023-24.



Other Provisions

Special education preschool students. Under House Bill 22-1295, funding for preschool students enrolled in district or charter schools is distributed through the universal preschool program beginning in FY 2023-24, instead of through the school finance formula. SB 23-287 provides \$10.0 million in FY 2023-24 to be distributed to preschool providers that are school districts or charter schools to ensure that they are able to meet federal special education maintenance of effort requirements.

Public School Finance Task Force. SB 23-287 creates the Public School Finance Task Force in CDE to complete the following:

- make recommendations for changes to the school finance formula for FY 2024-25, including eliminating the use of multiplicative factors, alternatives for or changes to the cost of living factor and size factor, funding for CSI mill levy override equalization, and changes that prioritize student needs; and
- developing the parameters for a study on the components and costs necessary to adequately provide public education. CDE must contract for two adequacy studies from independent entities with differing perspectives.

CDE must contract with a third-party entity to facilitate the task force and report to the General Assembly on formula changes by January 31, 2024. The contractors must submit the adequacy studies to the task force by January 3, 2025.

Charter school capital construction. SB 23-287 modifies the matching requirements for charter schools that receive funding from the Building Excellent Schools Today (BEST) program and provides \$10.0 million for charter school capital construction.

American Indian mascot compliance reimbursement. Under SB 23-287, a school that was in violation of the prohibition on American Indian mascots may apply to CDE for reimbursement of expenses incurred to comply with the prohibition. SB 23-287 provides \$300,000 for this purpose and specifies that CDE must distribute the funding proportionately, based on the expenses incurred by each school. Reimbursements may not cover any fines paid as a result of the violation.

Gifted and talented screening. Beginning in FY 2023-24, SB 23-287 requires that the General Assembly appropriate the amount of funding necessary to provide universal screening to identify gifted and talented students by FY 2027-28.



CSI mill levy override equalization. In FY 2023-24, SB 23-287 appropriates \$2.5 million from the General Fund to the Mill Levy Equalization Fund, for allocation to CSI schools. Beginning in FY 2024-25, the bill specifies that the General Assembly must appropriate from the General Fund the amount required to fully fund mill levy equalization for CSI schools.

Individualized education plan translations. For FY 2023-24, SB 23-287 appropriates \$500,000 to CDE for communication and translation of student individualized education plans (IEP).

Other changes. SB 23-287 also makes the following changes:

- specifies that charter schools are public entities and must submit the information to the Department of Local Affairs that local governments are currently required to submit;
- makes the charter school report an annual report, instead of requiring it every three years;
- makes lunches served to students in facility schools eligible for funding through the School Lunch Protection Program;
- exempts program evaluation costs from the 20 percent cap on administration costs for the Imagination Library Program; and
- allows CDE, districts, and CSI schools to consider life-cycle costs when reviewing and selecting contracts for technology products, for contracts executed on or after July 1, 2023.