



Joint Technology Committee

Legislative Council Staff

Nonpartisan Services for Colorado's Legislature

FISCAL YEAR 2025-26 CAPITAL CONSTRUCTION INFORMATION TECHNOLOGY BUDGET REQUEST

COLORADO DEPARTMENT OF EDUCATION SCHOOL FINANCE SYSTEM MODERNIZATION

Project Summary

The Department of Education (CDE) is requesting state funding for the purchase of a technology solution to upgrade its school finance management system.

Table 1
Prior Appropriation and Request Information

Fund Source	Prior Appropriation	Budget Year FY 2025-26	Out Year FY 2026-27	Future Requests	Total Costs
CCF	\$0	\$3,000,000	\$6,000,000	\$0	\$9,000,000
Total	\$0	\$3,000,000	\$6,000,000	\$0	\$9,000,000

Table 2
Itemized Cost Information

Fund Source	Prior Appropriation	Budget Year FY 2025-26	Out Year FY 2026-27	Future Requests	Total Costs
Professional Services	\$0	\$0	\$0	\$0	\$0
Software Acquisition	\$0	\$2,857,143	\$5,714,286	\$0	\$8,571,429
Equipment	\$0	\$0	\$0	\$0	\$0
Contingency	\$0	\$142,857	\$285,714	\$0	\$428,571
Total	\$0	\$3,000,000	\$6,000,000	\$0	\$9,000,000

Project Status

This is a new, never-before-requested project.

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Department of Education
School Finance Modernization

Project Description

Background. The internally developed school finance system (system), first implemented in 2012, supports the administration of the Public School Finance Act of 1994¹ (act) and the Public School Transportation Fund. It incorporates the initial monthly entitlements pursuant to the act as well as any funding adjustments resulting from audit findings related to the pupil counts. Under the provisions of the act, the State Board of Education is responsible for determining the amount of funding local school districts receive monthly from the state. The system is used to determine the monthly school finance distributions for each school district, which totaled \$9.7 billion in FY 2024-25 as well as the distribution of \$71.8 million in school transportation funding.

According to CDE, the development of the system was initiated by a contracted vendor in 2012, but was completed in-house after the vendor was found to have breached contract terms. CDE states that many components of the system are entirely non-operational, forcing CDE to manage around \$10 billion in school funding manually. The department has determined that upgrading its school finance management system is necessary to support its evolving needs.

CDE contracted with management consultants Public Knowledge (PK) to explore alternative options and help develop an alternatives analysis to address these issues and identify the most appropriate solution. According to CDE, the review with PK also examined solutions that other states have implemented for similar school finance management needs, providing a benchmark for CDE's future system. Based on the gathered data, six alternatives were identified for evaluation:

- maintain status quo;
- in-house new system development and replacement;
- outsourced existing system modernization;
- outsourced new MOTS (Modified Off-the-Shelf) technology solution;
- outsourced custom built solution; and
- hybrid modular solution.

The department prefers the MOTS system solution alternative. MOTS solutions contain existing functionality tailored to common industry needs, but can be customized to meet specific state requirements.

Problem and Justification. The department states that in recent years, changes to the School Finance Act has increased the complexity of the system. Examples include full-day kindergarten,

¹ Section 22-54-101, *et seq.*, C.R.S.

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free and reduced lunch at-risk funding, and an English Language Learner funding factor as a result of [Senate Bill 21-268](#). CDE states that this complexity has created instability. The department also states that upcoming changes due to the inclusion of a new at-risk measure pursuant to [House Bill 22-1202](#) is anticipated to compound these existing issues.

In addition to these challenges, Colorado is anticipating a funding formula change occurring in FY 2025-26 following the passage of [Senate Bill 24-188](#). According to the department, the new formula will run concurrently with the existing school funding formula for several years. There is significant concern that the system will not be able to handle the historical funding formula and will not be able to manage two funding formulas at the same time due to its lack of functionality.

Procurement. The department received a one-time General Fund allocation of \$200,000 in FY 2024-25 to investigate the feasibility of modernizing the State Equal and Audit modules of the system.

In order to mitigate risks in the process of identifying a new system, CDE plans to issue a request for information (RFI), followed by a request for proposal (RFP), to confirm the landscape of available systems to support Colorado's school finance system requirements. CDE states that it will continue to work with PK on defining clear system requirements and engaging stakeholders to finalize the specifications needed for the MOTS solution.

CDE states that it has a skilled contracts and procurement team and experienced contract managers. Additionally, department's internal IT team will engage on the RFP selection committee managed by the department's school finance team, and will be involved in contract review as well.

IT Accessibility. The department states that IT Accessibility requirements pursuant to [House Bill 21-1110](#), [Senate Bill 23-244](#), and OIT rules for accessibility standards for IT systems will be incorporated into the RFP and resulting contract.

Change Management. According to the department, the projected time to implement a MOTS technology solution is two to three years. CDE included information on change management and of the need for a detailed timeline that includes major milestones such as data migration, system testing, and user training to ensure a smooth and efficient transition.

Additional Cost Information

The department states it does not have an existing appropriation for the system. CDE further states that this request is based upon the maximum estimated cost for the recommended MOTS solution, spread over two fiscal years. The out-year costs currently represent an estimate and will

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be reevaluated before the department submits an IT capital request for phase two of the project for FY 2026-27.

The department provided a range of potential ongoing costs. Using an estimate for ongoing maintenance costs of 18 percent of implementation costs, the department indicates that the ongoing costs could be between \$900,000 and \$1.62 million. An alternative analysis by PK indicated estimated ongoing costs could be between \$2.0 million to \$3.5 million per year.

Cost Benefit Analysis. The implementation of a new automated system will improve the efficiency of the existing staff members as the system will eliminate numerous manual processes and calculations. The department provided an evaluation in the cost-benefit section of the request of the six alternative options mentioned above, in terms of their potential benefits, risks, and alignment with CDE’s long-term goals. CDE also provided the following cost comparisons of the different options.

Option	Initial Cost	Ongoing Annual Cost
Maintain Status Quo	Minimal to none	\$1m-\$2m
In-House System Development and Replacement	\$5m-\$9m	\$2m-\$3m
Existing System Modernization (by vendor/third-party)	44m-\$8m	\$2m-\$3.5m
New MOTS Technology Solution (provided by vendor/third-party)	\$5m-\$9m	\$1.5m-\$3m
Custom-Built Solution (by vendor/third-party)	\$8m-\$12m	\$3m-\$5m
Hybrid Modular Solution (in-house and vendor/third-party)	\$6m-\$10m	\$2m-\$3.5m

Additionally, PK performed a scoring framework approach that allows for a clear comparison of each alternative's strengths and weaknesses in relation to CDE’s strategic goals with the MOTS technology solution as the recommended approach for Colorado’s future school finance management system. CDE states that if the state funds a replacement system and CDE initiates the procurement process, evaluating potential MOTS solutions should be the top priority.