



# Colorado Legislative Council Staff

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## MEMORANDUM

October 2, 2014

**TO:** Interested Persons  
**FROM:** Todd Herreid, Fiscal Director, 303-866-2633  
**SUBJECT:** Kindergarten through Twelfth Grade (K-12) Public School Funding

### Summary

This memorandum provides an overview of K-12 funding within the context of the state's operating budget. In December 2013, about \$1.1 billion was transferred from the General Fund to the State Education Fund (SEF). The General Assembly has used some of this one-time money to set funding levels for the 2014-15 budget year, but will have to determine how to use this money for school finance and other K-12 purposes in subsequent years.

House Bill 14-1292 (the Student Success Act) and House Bill 14-1298 (the school finance bill) together increased school finance funding by \$406 million in FY 2014-15 compared with the prior year. These bills also increased spending for other K-12 purposes by about \$61 million per year, including additional funding for English language learners (ELL), charter school capital construction, and the READ Act. Based on the September 2014 Legislative Council Staff (LCS) forecast of SEF revenue and assuming a \$400 million balance in the SEF at the end of FY 2015-16, maintaining state support for these two bills in FY 2015-16 will require a year-over-year increase in General Fund spending for school finance of 11.0 percent, or \$351 million. This increase in General Fund support for K-12 education will use about 56 percent of new General Fund revenue projected to be received in FY 2015-16.

The memorandum outlines the assumptions used in this analysis and summarizes the projected General Fund spending requirements for school finance through FY 2017-18.

**Overview.** Based on the provisions of HB 14-1292 and HB 14-1298, school finance funding will increase by \$406 million in FY 2014-15 compared with the prior year. About \$365 million of the increase comes from state sources and \$41 million comes from local revenue. These two bills also increase state spending for other K-12 purposes by about \$61 million annually for the following:

- \$27.5 million for English language learners;
- \$18.0 million for the READ Act and early literacy programs;
- \$13.0 million for charter school capital construction; and
- \$2.0 million for Boards of Cooperative Educational Services (BOCES).

In conjunction with House Bill 14-1336 (Long Bill), which pays for school finance under current law, and other legislation adopted by the General Assembly, the year-over-year appropriation increase for K-12 funding is about \$459 million, excluding money appropriated for the Building Excellent Schools Today program. Money for the latter was continuously appropriated before this budget year.

Table 1 illustrates the school finance funding changes with HB 14-1292 and HB 14-1298, assuming the value of the negative factor remains at \$894 million beyond FY 2014-15. The statewide average per pupil revenue is expected to increase from \$6,652 in FY 2013-14 to \$7,021 in FY 2014-15, an increase of \$369. Under current law, per pupil funding will increase by \$242 in FY 2015-16, reaching \$7,263. The table does not include other K-12 funding, such as categorical programs, grant programs, and other non-school finance elements contained in the two bills.

**Table 1**  
**School Finance Funding With Passage of HB 14-1292 and HB 14-1298**  
*(Millions of Dollars, except for per pupil amounts; assumes negative factor remains at \$894.2 million in FY 2015-16, FY 2016-17, and FY 2017-18)*

	FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17	FY 2017-18
Total Program before negative factor	\$6,531.2	\$6,827.6	\$7,107.9	\$7,402.5	\$7,724.6
Negative factor	(\$1,004.3)	(\$894.2)	(\$894.2)	(\$894.2)	(\$894.2)
Total program after negative factor	\$5,526.9	\$5,933.4	\$6,213.7	\$6,508.3	\$6,830.4
Funded pupil count	830,833	845,136	855,589	866,775	881,567
Average per pupil revenue	\$6,652	\$7,021	\$7,263	\$7,509	\$7,748

**SEF analysis.** The analysis of SEF and General Fund appropriations needed to support school finance in the future is based on the following assumptions:

- total program funding for school districts before the application of the negative factor is based on the LCS forecast for inflation from September 2014 and the student enrollment forecast from December 2013;
- the value of the negative factor in the school finance formula remains at \$894 million after FY 2014-15;
- the local share of school finance is based on LCS forecasts of assessed values and specific ownership taxes from December 2013; and
- the General Fund appropriation for school finance will increase by a minimum amount each year to maintain a \$400 million SEF ending balance in FY 2015-16 and following years.

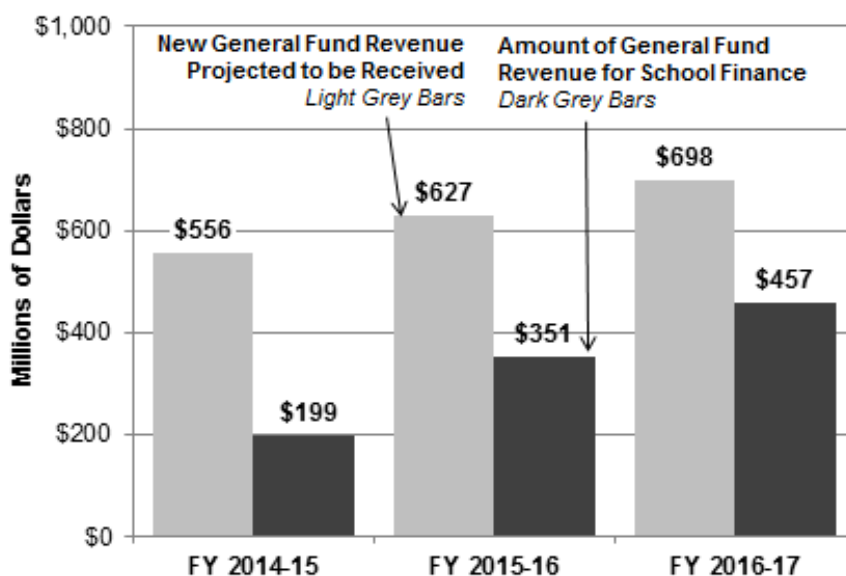
Table 2 shows the school finance changes resulting from HB 14-1292 and HB 14-1298, and the sources of funding from state and local revenue through FY 2017-18. In FY 2014-15, total program funding after the negative factor is about \$5.9 billion, with local sources projected to contribute \$2.0 billion and state sources projected to contribute \$3.9 billion.

In addition, at the beginning of FY 2014-15, the balance in the SEF is estimated to exceed \$1.0 billion. Given the General Fund and State Public School Fund appropriations for school finance during FY 2014-15, the SEF contribution is \$670 million (see rows 10 and 20 in Table 2). Coupled with other K-12 spending from the SEF for categorical programs and other programs, total

spending from the SEF is projected at \$970 million in FY 2014-15 (see row 23). This amount includes existing programs as well as new spending specified in HB 14-1292, HB 14-1298, and other bills adopted by the General Assembly in 2014.<sup>1</sup> As a result, the FY 2014-15 ending balance in the SEF is expected to be about \$646 million (see row 24), based on the LCS revenue forecast.<sup>2</sup>

In FY 2015-16, the General Fund appropriation for school finance must increase 11.0 percent under the LCS forecast to maintain a \$400 million ending balance in the SEF. This relatively large increase is partly because the one-time money deposited into the SEF is projected to be spent or held in reserve. Figure 1 illustrates what this means for the General Fund in FY 2015-16 and FY 2016-17. The General Fund appropriation for school finance will need to increase by \$351 million and \$457 million, respectively in FY 2015-16 and FY 2016-17, to maintain a targeted \$400 million ending balance in the SEF.<sup>3</sup> This amount of General Fund spending represents about 56 percent and 65 percent of new General Fund revenue projected to be received in those budget years, respectively.

**Figure 1**  
**General Fund Appropriations Growth for School Finance to Maintain a**  
**\$400 Million SEF Ending Balance in FY 2015-16 and FY 2016-17**  
 (HB 14-1292 and HB 14-1298 combined)



The results will change if the assumptions outlined previously change. For example, if the local share of school finance is higher than projected, the state share and spending from the SEF and General Fund will be reduced. Similarly, if state income tax revenue is higher than forecast, more money will be available in the SEF, thereby reducing what is required from the General Fund. In addition, if the inflation or pupil enrollment forecasts are lower than anticipated, the state share needed for school finance will be decreased.

<sup>1</sup>Existing programs include funding for student assessments (\$29 million), facility schools (\$17 million), charter school capital construction (\$7 million), counselor corps (\$5 million), early literacy programs (\$16 million), full-day kindergarten hold harmless (\$7 million), quality teacher recruitment (\$3 million), and other programs. HB 14-1292 and HB 14-1298 spend an additional \$61 million on English language learners, the READ Act, boards of cooperative educational services (BOCES), and charter school capital construction. Plus, other bills passed by the General Assembly in 2014 spend an additional \$7 million per year from the SEF.

<sup>2</sup>Under OSPB's higher revenue forecast, the SEF balance is projected to be \$666 million at the end of FY 2014-15.

<sup>3</sup>Under OSPB's revenue forecast, the General Fund increase in FY 2015-16 is estimated to be \$305 million.

**Table 2**  
**State Education Fund Analysis, Based on September 2014 Legislative Council Staff (LCS) Tax Revenue Forecast**  
**Combined Impacts of HB 14-1292 and HB 14-1298 and Other Legislation\***

(Assumes negative factor remains at \$894.2 million beyond FY 2014-15, and minimum \$400 million State Education Fund ending balance)

	FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17	FY 2017-18
1 Total Program before Negative Factor	\$6,531,235,817	\$6,827,646,456	\$7,107,937,820	\$7,402,492,757	\$7,724,574,105
2 Negative Factor	<b>-\$1,004,302,068</b>	<b>-\$894,202,067</b>	<b>-\$894,202,067</b>	<b>-\$894,202,067</b>	<b>-\$894,202,067</b>
3 Total Program after Negative Factor	\$5,526,933,749	\$5,933,444,389	\$6,213,735,753	\$6,508,290,690	\$6,830,372,038
4 Funded Pupil Count	830,833	845,136	855,589	866,775	881,567
5 Average Per Pupil Revenue (PPR)	\$6,652	\$7,021	\$7,263	\$7,509	\$7,748
6 % chg in PPR		5.5%	3.4%	3.4%	3.2%
7 Local Share	\$1,938,833,490	\$1,979,937,820	\$2,079,654,365	\$2,139,964,342	\$2,268,362,202
8 State Share	\$3,588,100,259	\$3,953,506,569	\$4,134,081,388	\$4,368,326,348	\$4,562,009,836
9 State Public School Fund	\$75,368,389	\$98,977,700	\$90,296,769	\$90,234,214	\$93,524,043
10 State Education Fund (SEF)	\$527,420,989	\$670,557,329	\$509,114,827	\$286,560,656	\$321,104,968
11 General Fund*	\$2,985,310,882	\$3,183,971,540	\$3,534,669,792	\$3,991,531,478	\$4,147,380,825
12 Assumed General Fund Appropriations Growth for School Finance	4.8%	6.7%	11.0%	12.9%	3.9%
13 SEF Beginning Balance	\$183,358,574	\$1,048,948,845	\$646,344,339	\$400,000,027	\$400,000,028
14 SEF Deposits	\$1,605,374,125	\$567,311,591	\$567,355,764	\$599,862,815	\$643,330,371
15 Income taxes (LCS forecast)	\$478,800,000	\$501,400,000	\$532,700,000	\$567,900,000	\$606,731,406
16 GF surplus transfer (LCS forecast)*	\$1,073,500,000	\$34,400,000	\$0	\$0	\$0
17 Fire and Police Pension Association repayment	\$45,321,079	\$25,321,079	\$25,321,079	\$25,321,079	\$25,321,079
18 Interest earnings	\$7,753,046	\$6,190,512	\$9,334,685	\$6,641,736	\$11,277,887
19 SEF Expenditures					
20 School finance	\$527,420,989	\$670,557,329	\$509,114,827	\$286,560,656	\$321,104,968
21 Categorical programs**	\$127,093,954	\$136,525,196	\$144,317,335	\$152,327,654	\$159,974,075
22 Other spending (includes all 2014 passed bills)**	\$85,268,911	\$162,833,572	\$160,267,915	\$160,974,504	\$162,248,994
23 Total Expenditures	\$739,783,854	\$969,916,097	\$813,700,077	\$599,862,814	\$643,328,037
24 SEF Ending Balance	\$1,048,948,845	\$646,344,339	\$400,000,027	\$400,000,028	\$400,002,362

\* Assumes LCS' tax revenue forecast, and minimum General Fund appropriations growth for school finance of 11.0% to achieve an SEF ending balance of \$400 million in FY 2015-16. In FY 2016-17, General Fund appropriations for school finance would have to increase 12.9% to maintain a \$400 million ending balance.

\*\* These amounts reflect the timing of expenditures based on the fiscal notes for HB 14-1292 and HB 14-1298; amounts also include \$7 million in SEF spending from HB 14-1102, HB 14-1118, SB 14-124, and SB 14-150.