



Legislative Council Staff

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Fiscal Note

Drafting Number: LLS 22-1016 **Date:** April 20, 2022
Prime Sponsors: Rep. McCluskie; McLachlan **Bill Status:** House Education
 Sen. Zenzinger **Fiscal Analyst:** Anna Gerstle | 303-866-4375
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Bill Topic: PUBLIC SCHOOL FINANCE

Summary of Fiscal Impact:

<input type="checkbox"/> State Revenue	<input type="checkbox"/> TABOR Refund
<input checked="" type="checkbox"/> State Expenditure	<input type="checkbox"/> Local Government
<input type="checkbox"/> State Transfer	<input checked="" type="checkbox"/> School District

This bill is the 2022 School Finance Act that sets funding levels for Colorado's 178 school districts. It also modifies several education-related programs and makes technical changes. The bill increases state expenditures and school district funding.

Appropriation Summary: For FY 2022-23, the bill requires an appropriation of \$182,251,888 to the Colorado Department of Education.

Fiscal Note Status: The fiscal note reflects the introduced bill.

Table 1
State Fiscal Impacts Under HB 22-1390

		Budget Year FY 2022-23	Out Year FY 2023-24
Revenue		-	-
Expenditures	General Fund	\$227,973	-
	State Education Fund	\$182,023,915	\$266,404,046
	Total Expenditures	\$182,251,888	\$266,404,046
Transfers		-	-
Other Budget Impacts	General Fund Reserve	\$34,196	-

Summary of Legislation

The bill makes changes to state law regarding the funding of public schools and associated programs within the Colorado Department of Education (CDE).

Base per pupil funding. The bill increases base per pupil funding for FY 2022-23 by \$252.88 to \$7,478.16, which reflects a 3.5 percent inflation rate.

Budget stabilization factor. The bill decreases the budget stabilization factor by \$182.0 million, from \$503.3 million in FY 2021-22 to \$321.2 million in FY 2022-23. For FY 2023-24, the bill specifies that the budget stabilization factor cannot exceed FY 2022-23 levels.

District auditing requirements. Under current law, school districts must conduct an annual audit of financial statements, and submit the audit report to the State Auditor within thirty days after receiving the report. If the audit is not submitted within three months after the deadline, the State Auditor may require the county treasurer to prohibit the release of local tax money to the district. The bill grants an additional extension of 12 months to districts that:

- are classified as rural or small rural;
- have exhausted all available extensions in current law; and
- demonstrate to the state auditor that the district was unable to retain an auditor to complete the annual audit.

If a district does not complete an audit within the extension, the Office of the State Auditor must make or cause the audit to be made, subject to provisions in current law.

American Indian mascots. If a public school was notified on or after January 1, 2022 that use of their mascot is prohibited because it includes an American Indian tribe, individual, or custom, the school must discontinue the use by June 1, 2023, an extension of one year.

BOCES schools. The bill extends for one year, through FY 2022-23, the requirement that a Board of Cooperative Educational Services (BOCES) obtain written consent from a school district before authorizing a school or an additional location of an existing school that is physically located within the boundaries for that district, provided the school district is not a member of the BOCES. This requirement does not apply to a school operating prior to June 11, 2021, as long as the school continues to operate during the 2021-22 and 2022-23 school years.

School choice. The bill specifies that if a school district enrolls a student whose parent is a resident of the state, but not the district, the school district must not charge tuition for the student to attend school in the district, regardless of the circumstances of the student's enrollment.

Program changes. The bill makes the following changes to education policies and programs:

- extends the dyslexia screening and intervention pilot program by one year;
- extends the K-5 Social – Emotional Health Pilot Program by one year and modifies the requirements for school mental health professionals participating in the program;

- allows districts to carry over more than 15 percent of FY 2021-22 READ Act per pupil intervention funds for use in FY 2022-23;
- allows recipients of the educator recruitment and retention grant to agree to teach in an educator shortage area as a condition of program participation, as determined by the State Board of Education;
- allows vendors that contract with CDE to develop a quality teacher and recruitment program to satisfy the program match requirement through gifts, grants, and donations by school districts, in addition to private gifts, grants, and donations;
- repeals the provision allowing CDE to annually reallocate money among providers participating in the local school food purchasing program;
- allows 20 percent of the money appropriated for the Imagination Library program in FY 2022-23 and thereafter to be used by the contracted program operator for operating costs; and
- specifies that, due to the suspension of funding in FY 2020-21, the third year of the local accountability system grant program is FY 2022-23. The bill appropriates \$100,000 for the program evaluation that must occur in the program's third year.

State Revenue

By providing certain schools an extension to comply with the prohibition on American Indian mascots, the bill may decrease fine revenue that would have been deposited in the State Education Fund in FY 2022-23. The fiscal note assumes that schools will utilize the extension to comply, and that any fine revenue collected in FY 2023-24 will be minimal.

State Expenditures

In FY 2022-23, the bill increases state expenditures by \$182.3 million. In FY 2023-24, the bill increases state funding by \$266.4 million; that amount does not include changes to school finance as a result of actual enrollment, local share, and inflation. The components of the expenditure changes are listed in Table 2 and discussed below.

**Table 2
 Expenditures Under HB22-1390**

Cost Components	FY 2022-23	FY 2023-24
Colorado Department of Education		
State Share of School Finance	\$182,023,915	\$266,404,046
Local Accountability Systems Grant Evaluation	\$100,000	-
Dyslexia Pilot Program Continuation	\$127,973	-
Total Cost	\$182,251,888	\$266,404,046

School finance – FY 2022-23. The bill sets total program funding for FY 2022-23 at \$8.4 billion. This represents a 3.68 percent (\$321.2 million) reduction from what funding levels would be without the budget stabilization factor. Compared to current law, the bill increases total program funding in FY 2022-23 by \$182.0 million. This amount is \$149 higher than the amount set aside by the Joint Budget Committee, due to a technical adjustment.

Compared to actual funding in FY 2021-22, the bill increases total program funding by \$431.0 million. State expenditures for school finance will increase by \$354.5 million and the local share of funding will increase by \$76.5 million, compared to FY 2021-22. State funding is from the General Fund, State Education Fund, and State Public School Fund. Table 3 shows an estimate of school funding under this bill, after the budget stabilization factor, compared to FY 2021-22.

**Table 3
 School Finance Act Funding Under HB22-1390**

Fiscal Year	Pupil Count	Per Pupil Funding	Total Program	State Share	Local Share
FY 2021-22 Actual	886,249	\$9,015	\$7,989,164,350	\$4,708,971,499	\$3,280,192,851
FY 2022-23 Est.	880,808	\$9,560	\$8,420,163,860	\$5,063,502,810	\$3,356,661,200
Change	(5,441)	\$545	\$430,999,510	\$354,531,311	\$76,468,348
Percent Change	-0.6%	6.0%	5.4%	7.5%	2.3%

School finance – FY 2023-24 preliminary estimate. For FY 2023-24, total program funding will be \$266.4 million more than the FY 2022-23 funding level; this amount does not include changes to school finance as a result of actual enrollment, local share, and inflation. The estimate was made by increasing the \$249.0 million increase in total program before the budget stabilization factor by 7.0 percent, Legislative Council Staff’s current projection for inflation rate in 2022.

Local accountability systems grant program. CDE requires \$100,000 in FY 2022-23 to contract for the evaluation of the local accountability systems grant program. Current law requires that the program evaluation occur in the program’s third year, which would have been FY 2021-22 if not for the suspension of funding in FY 2020-21 due to the pandemic. The bill specifies that the evaluation must occur in FY 2022-23.

Dyslexia pilot program. CDE requires \$127,973 in FY 2022-23 for the one-year extension of the dyslexia pilot program. This amount will be used for the contract with the University of Oregon, which currently runs the program.

Office of the State Auditor. The bill increases workload for the Office of the State Auditor to coordinate with districts that are eligible for an extension of their audit deadline. No change in appropriations is required.

Other Budget Impacts

General Fund reserve. Under current law, an amount equal to 15 percent of General Fund appropriations must be set aside in the General Fund statutory reserve beginning in FY 2022-23. Based on this fiscal note, the bill is expected to increase the amount of General Fund held in reserve by the amounts in Table 1, which will decrease the amount of General Fund available for other purposes.

School District

Total program. Table 3 compares estimated FY 2022-23 school finance funding levels with actual funding in FY 2021-22. In FY 2022-23, the bill increases funding by \$545 per pupil and funds 5,441 fewer pupils statewide. Total program funding increases by \$431.0 million, from \$8.0 billion to \$8.4 billion. Of this amount, the state's share increases by \$354.5 million, from \$4.7 billion to \$5.1 billion, and the local share increases by \$76.5 million, from \$3.3 billion to \$3.4 billion. For a breakdown of the impact on individual districts, please see:

<http://leg.colorado.gov/agencies/legislative-council-staff/school-finance>.

Other changes. The programmatic and technical changes in the bill will impact some school districts. Exact impacts are unknown, as they will vary by district. For districts participating in the dyslexia pilot program or K-5 Social-Emotional Health program, revenue and expenditures associated with those programs will continue for one more year.

Effective Date

The bill takes effect upon signature of the Governor, or upon becoming law without his signature.

State Appropriations

For FY 2022-23, the bill requires the following appropriations to the Colorado Department of Education:

- \$182,023,915 from the State Education Fund for the state share of school finance;
- \$100,000 from the General Fund for the local accountability systems grant program; and
- \$127,973 from the General Fund for the dyslexia pilot program.

State and Local Government Contacts

Education