

JOINT BUDGET COMMITTEE



STAFF BUDGET BRIEFING FY 2024-25

DEPARTMENT OF EDUCATION

(School Finance and Categorical Programs Only)

JBC WORKING DOCUMENT - SUBJECT TO CHANGE
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ADDITIONAL RESOURCES

Brief summaries of all bills that passed during the 2023 legislative sessions that had a fiscal impact on this department are available in *Appendix A* of the annual Appropriations Report:

<https://leg.colorado.gov/sites/default/files/fy23-24apprept.pdf>

The online version of the briefing document may be found by searching the budget documents on the General Assembly’s website by visiting leg.colorado.gov/content/budget/budget-documents. Once on the budget documents page, select the name of this department's *Department/Topic*, "Briefing" under *Type*, and ensure that *Start date* and *End date* encompass the date a document was presented to the JBC.

DEPARTMENT OF EDUCATION

DEPARTMENT OVERVIEW

The Commissioner of Education, who is appointed by the State Board of Education, is the chief state school officer and executive officer of the Department of Education. The Commissioner and department staff, under the direction of the elected members of the State Board of Education, have the following responsibilities, among others:

- Supporting the State Board in its duty to exercise general supervision over public schools and K-12 educational programs operated by state agencies, including appraising and accrediting public schools, school districts, and the State Charter School Institute (Institute).
- Developing and maintaining state academic standards, and administering the associated statewide assessment program.
- Annually accrediting school districts and the Institute and making education accountability data available to the public.
- **Administering the public school finance act and distributing federal and state moneys appropriated or granted to the Department for public schools.**
- Administering educator licensure and professional development programs.
- **Administering education-related programs, including services for children with special needs, services for English language learners, the Colorado preschool program, public school transportation,** adult basic education programs, and various state and federal grant programs.
- Supporting the State Board in reviewing requests from school districts for waivers of state laws and regulations and in serving as the appellate body for charter schools.
- Promoting the improvement of library services statewide to ensure equal access to information, including providing library services to persons who reside in state-funded institutions and to persons who are blind and/or physically disabled.
- Maintaining the Colorado virtual library and the state publications library.

The Department also includes three “type 1”¹ agencies:

- A seven-member Board of Trustees that is responsible for managing the Colorado School for the Deaf and the Blind, located in Colorado Springs.
- A nine-member State Charter School Institute Board that is responsible for authorizing and monitoring the operations of “institute charter schools” located within certain school districts.
- A nine-member Public School Capital Construction Assistance Board that is responsible for assessing public school capital construction needs statewide and making recommendations concerning the prioritization and allocation of state financial assistance for school construction projects.

¹ Pursuant to Section 24-1-105 (1), C.R.S., a type 1 agency exercises its prescribed powers and duties independently of the head of the department.

DEPARTMENT BUDGET: RECENT APPROPRIATIONS

FUNDING SOURCE	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25 *
General Fund	\$4,294,161,543	\$4,500,428,610	\$4,670,389,088	\$4,679,444,166
Cash Funds	1,469,771,240	1,517,239,273	1,684,873,868	1,943,276,527
Reappropriated Funds	47,339,278	72,285,315	82,260,248	56,007,674
Federal Funds	620,755,044	1,048,449,871	1,049,944,421	1,051,843,913
TOTAL FUNDS	\$6,432,027,105	\$7,138,403,069	\$7,487,467,625	\$7,730,572,280
Full Time Equiv. Staff	614.4	638.3	661.9	664.7

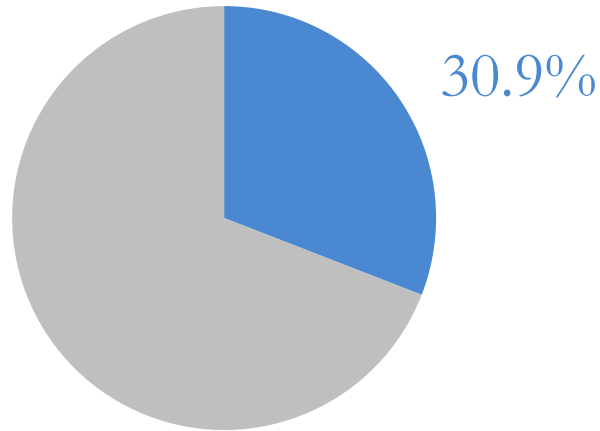
*Requested appropriation.

Funding for the entire Department of Education (shown above) in FY 2023-24 consists of 62.4 percent General Fund, 22.5 percent cash funds, 1.1 percent reappropriated funds, and 14.0 percent federal funds.

Funding for the subdivisions covered in this briefing packet consists of 76.4 percent General Fund, 20.7 percent cash funds, less than 0.1 percent reappropriated funds, and 2.9 percent federal funds in FY 2023-24.

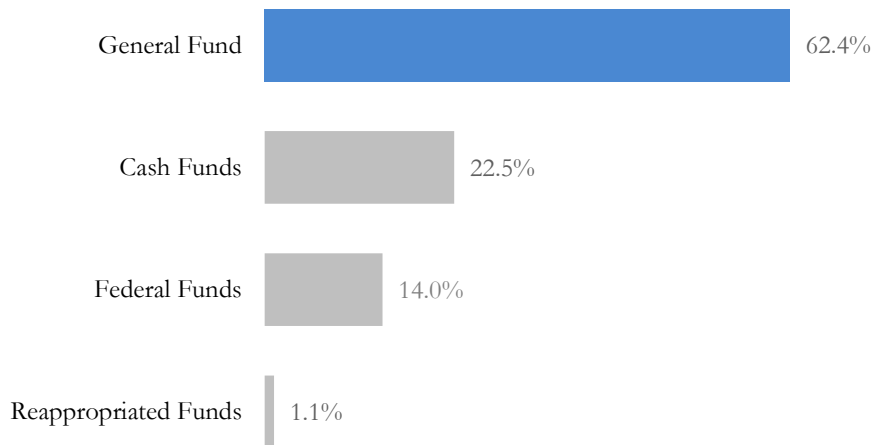
DEPARTMENT BUDGET: GRAPHIC OVERVIEW

Department's Share of Statewide General Fund



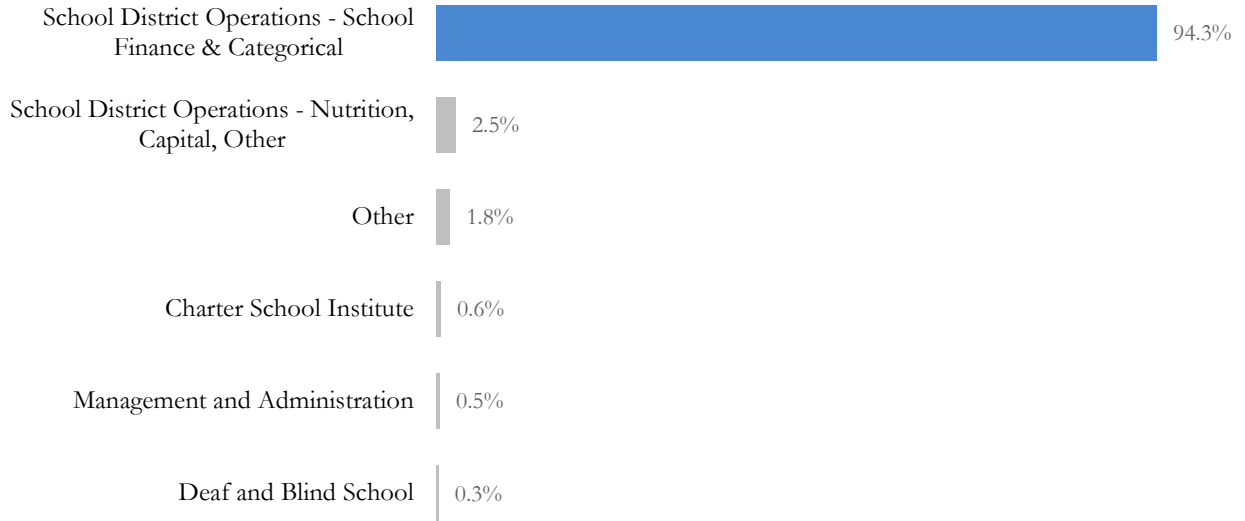
Based on the FY 2023-24 appropriation.

Department Funding Sources



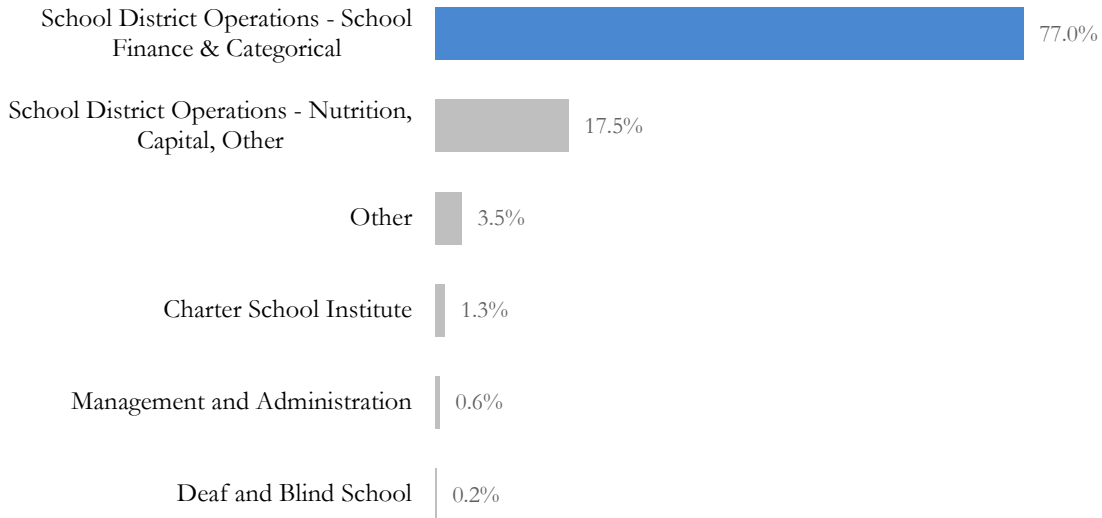
Based on the FY 2023-24 appropriation.

Distribution of General Fund by Division



Based on the FY 2023-24 appropriation.

Distribution of Total Funds by Division



Based on the FY 2023-24 Appropriation

CASH FUNDS DETAIL

DEPARTMENT OF EDUCATION: SCHOOL FINANCE AND CATEGORICAL PROGRAMS CASH FUNDS APPROPRIATION DETAIL

FUND NAME OR GROUP	FY 2023-24 APPROP.	PRIMARY SOURCES OF FUND REVENUE	PRIMARY USES IN THIS DEPARTMENT
State Education Fund	\$860,362,082 ¹	Income tax of 0.3%	Used throughout Department for eligible activities under Amendment 23 (adopted in 2000)
State Public School Fund	308,622,222 ¹	Federal mineral lease revenue (48.3% of non-bonus revenue received from mineral leases on federal public lands in CO) and 12.6% of marijuana special sales tax collections	State match for federal school lunches, supplemental on-line ed services, total program funding, reprinting education related laws
Mill Levy Override Match Fund	23,376,536 ¹	Transfer from the State Education Fund	Match local money raised through voter-approved mill levy overrides pursuant to S.B. 22-202
Contingency Reserve Fund	1,000,000 ¹	Transfer from the General Fund	State Board can authorize payments to assist districts with specific financial emergencies
Public School Transportation Fund	450,000 ¹	Transfer from General Fund	Provide operating expenditures for transportation for eligible districts, CSI schools, and facility schools
Total	\$1,193,810,840		

¹TABOR exempt

The use of the State Education Fund (SEF) and State Public School Fund (SPSF) for costs related to school finance are discussed later in this document.

GENERAL FACTORS DRIVING THE BUDGET

The Governor's FY 2024-25 request for the Department of Education consists of 60.5 percent General Fund, 25.1 percent cash funds, 13.6 percent federal funds, and 0.7 percent reappropriated funds. For school finance (the state share of districts' total program funding and categorical programs) specifically, the Governor's FY 2024-25 request consists of 73.9 percent General Fund, 23.3 percent cash funds, and 2.8 percent federal funds. Although local government revenues provide a significant source of funding for K-12 education in Colorado (including an estimated \$4.1 billion anticipated for total program alone in FY 2023-24), local funds are not reflected in the State's annual appropriations to the Department of Education.

The following sections review the role of school finance and categorical programs in driving the Department's annual budget.

PUBLIC SCHOOL FINANCE

School finance is the primary driver of the Department's budget. With \$5.0 billion total funds and \$4.2 billion General Fund, the state share of districts' total program funding represents 67.0 percent of the Department's total budget and 90.8 percent of its General Fund appropriations in FY 2023-24. Appropriations for school finance are heavily influenced constitutional requirements for a thorough and uniform system of public education and inflationary increases for education. In addition, the budget stabilization factor (BSF), first implemented in FY 2010-11 as a response to severe revenue shortfalls, has been a major driver.

CONSTITUTIONAL REQUIREMENTS

THOROUGH AND UNIFORM REQUIREMENT

Section 2 of Article IX of the Colorado Constitution requires the General Assembly to provide for the "establishment and maintenance of a thorough and uniform system of free public schools throughout the state". To meet this requirement, the General Assembly has established a statutory public school finance formula that takes into consideration the individual characteristics of each school district in order to provide thorough and uniform educational opportunities. That formula produces a "total program" funding amount for each school district, which is supported by both local and state revenues, and provides the primary source of funding for public schools in Colorado.

- The formula starts with a uniform statewide base per-pupil funding amount for every school district (\$8,076 per pupil for FY 2023-24) and then adds to that base amount based on *factors* that affect districts' costs of providing educational services.
- Recognizing differences in costs per pupil, the factors generate a different per pupil funding allocation for each school district. For example, the original FY 2023-24 appropriation assumes that per-pupil funding allocations will range from \$10,015 to \$22,796, with a statewide average of \$10,614 per pupil.
- Each district's total program funding is the product of multiplying its per pupil funding amount by its funded pupil count. For FY 2023-24, the formula is allocating a total of \$9.3 billion in state and local funds among Colorado's 178 school districts and the State Charter School Institute.

CONSTITUTIONAL INFLATIONARY REQUIREMENT (AMENDMENT 23)

Section 17 of Article IX of the Colorado Constitution (passed by the voters in 2000 as Amendment 23) requires the General Assembly to provide annual inflationary increases in the statewide base per

pupil funding amount, which provides the foundation of the statutory school finance formula. For FY 2001-02 through FY 2010-11, this provision required base per pupil funding to increase annually by at least the rate of inflation plus one percent; for FY 2011-12 and subsequent fiscal years, the statewide base must increase annually by at least the rate of inflation. For example, for FY 2023-24, this provision required the General Assembly to increase the statewide base per-pupil funding amount by at least \$598 (from \$7,478 to \$8,076), based on the actual 8.0 percent increase in the Denver-Aurora-Lakewood consumer price index in calendar year 2022. With an estimated funded pupil count of 858,654, this base per pupil funding accounts for \$6.9 billion in state and local funds in FY 2023-24, equal to 74.9 percent of the \$9.2 billion in total program funding available for allocation.

FACTORS CONSIDERED IN THE PUBLIC SCHOOL FINANCE FORMULA

After accounting for the 74.9 percent of total program funding dedicated to the statewide base in FY 2023-24, the *factors* in the school finance formula that account for individual district characteristics drive the remaining 25.1 percent of total program. For FY 2023-24, the formula includes four major factors:

- **Cost of Living Factor:** Recognizes that the cost of living in a community affects the salaries required to attract and retain qualified personnel. This factor provides additional funding to districts with higher cost of living.
- **Size Factor:** Compensates districts lacking enrollment-based economies of scale, increasing funding for smaller (lower enrollment) districts.
- **At-risk Factor:** Provides additional funding for districts serving students who may be at risk of failing or dropping out of school. The formula utilizes a proxy to estimate the number of at-risk students: the number and concentration of students who are either eligible for free or reduced-price lunch under the federal school lunch program. Prior to FY 2021-22, the at-risk factor did not include reduced-price eligible students; however, the enactment of S.B. 21-268 (School Finance) expanded eligibility to include those students. H.B. 22-1202 (At-risk Student Measure for School Finance) created a new at-risk measure that would include direct certification for students participating in Medicaid or the Children’s Basic Health Plan as well as a neighborhood socioeconomic status index. S.B. 23-287 delayed the implementation of the new measure from FY 2023-24 to FY 2024-25.
- **English Language Learner Factor:** Beginning in FY 2021-22 (with the enactment of S.B. 21-268), the formula provides additional funding for students identified as non-English proficient (NEP) or limited English proficiency (LEP). The formula funding for this group is in addition to funding distributed under the English Language Proficiency Act categorical program.

In addition, the school finance formula requires a minimum level of per-pupil funding (\$10,034 per pupil for FY 2023-24 after the application of the budget stabilization factor), regardless of the impact of the above factors. Based on current estimates for FY 2023-24, ten districts are receiving funding based on this minimum level of per-pupil funding.²

Finally, the School Finance Act provides a fixed amount of funding per pupil (established at \$9,586 for FY 2023-24) for two types of students:

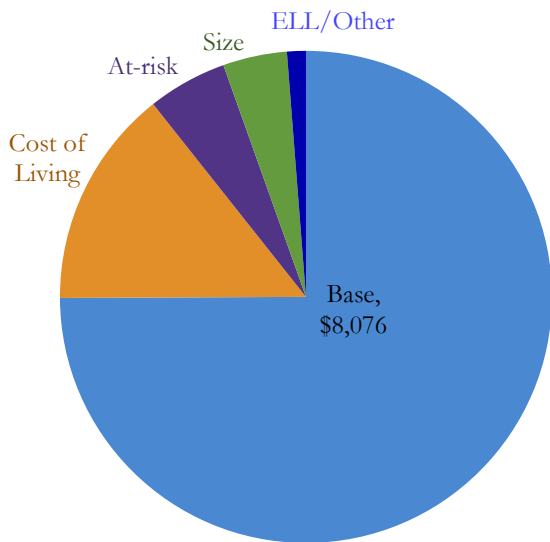
² The ten minimum-funded districts in FY 2023-24 include: four districts in El Paso County (Academy, Cheyenne Mountain, Lewis-Palmer, and Widefield), two in Larimer County (Poudre and Thompson), Mesa – Mesa Valley, Pueblo Rural, and Windsor and Johnstown-Milliken in Weld County.

- Students receiving full-time, online instruction through a *multi-district* program. (The formula funds students in *single-district* online programs at the same level as the district’s “brick and mortar” students.)
- Extended high school students, such as those enrolled in a fifth year of high school through the Accelerating Students through Concurrent Enrollment (ASCENT), students in grades 13 or 14 in a Pathways in Technology Early College High School (P-TECH) program, and students in their fifth and sixth year of high school participating in the Teacher Recruitment Education and Preparation (TREP) Program.

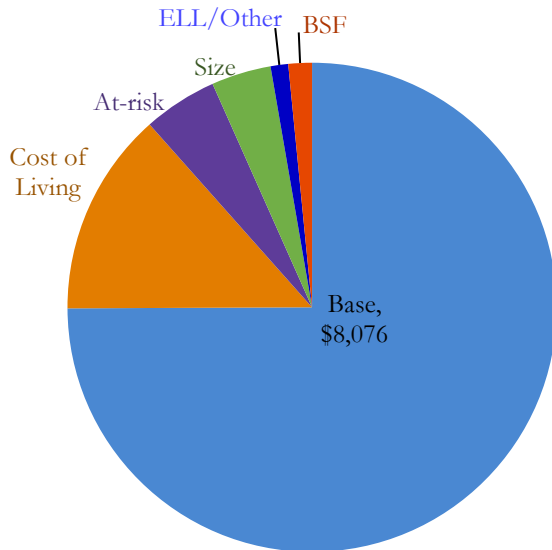
BUDGET STABILIZATION FACTOR

Since FY 2010-11 the formula has included a budget stabilization factor (BSF, previously known as the negative factor) designed to reduce districts’ total program funding to a specified total amount based on available state revenues. For FY 2023-24, the BSF is estimated to be negative 1.6 percent, requiring a \$141.2 million reduction in total program funding. Thus, the Department calculates total program funding for each district based on the formula described above and then reduces each district’s total program funding by 1.6 percent. Because the General Assembly cannot decrease base per-pupil funding, the BSF has the effect of reducing the funding attributed to the other formula factors, as illustrated below.

Without Budget Stabilization Factor



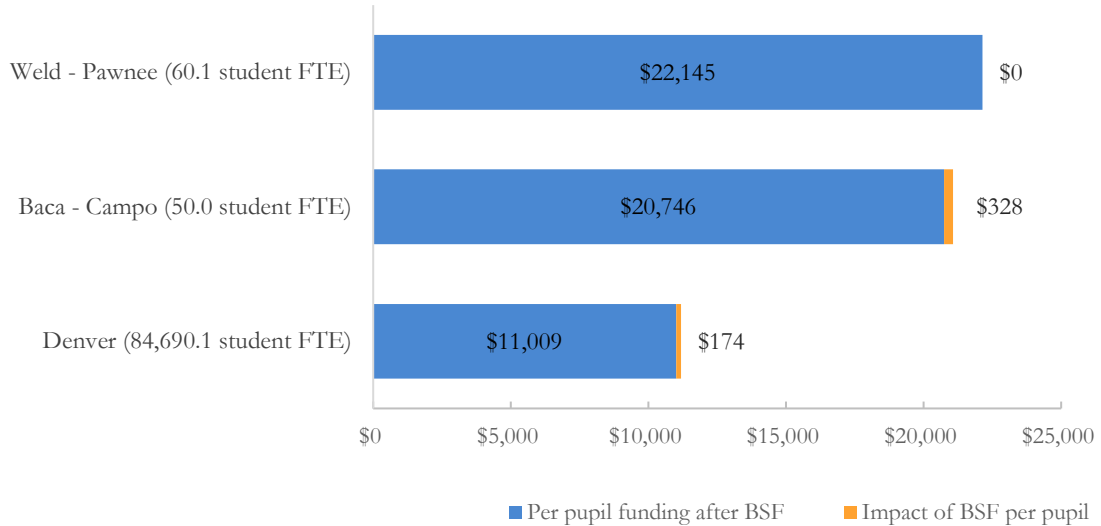
With Budget Stabilization Factor



While the budget stabilization factor is applied as a flat percentage reduction (1.6 percent in FY 2023-24), the impact varies as a dollar amount depending on the school district in question.

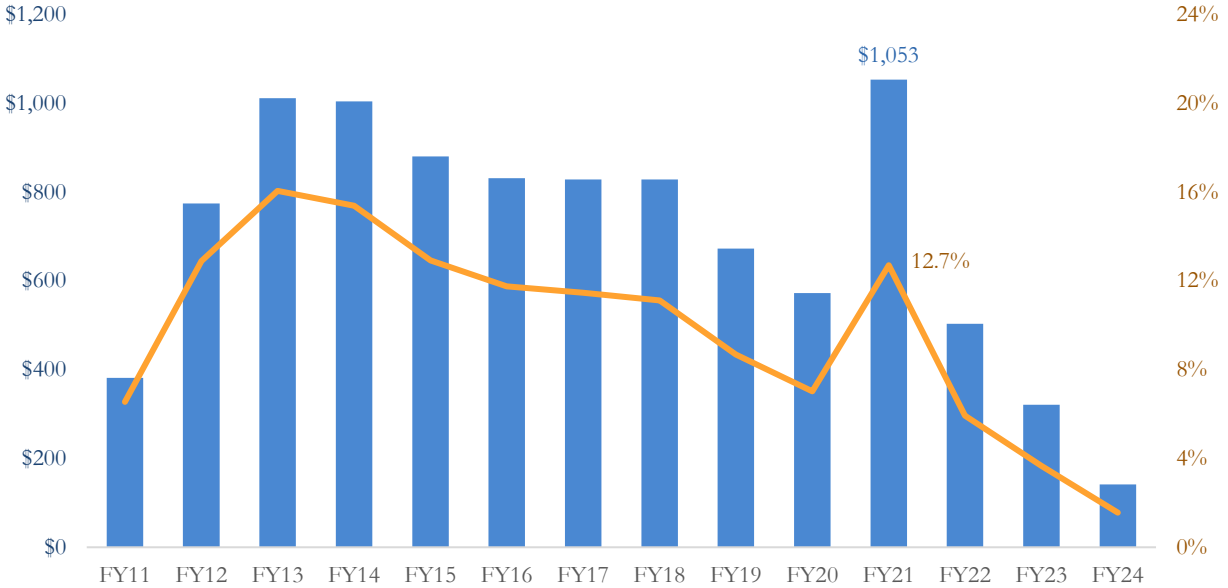
- First, while the percentage reduction is constant, the *dollar value* of the reduction (on a per pupil basis and in total) varies by district. As shown in the chart below, with a per pupil allocation of \$11,183 *before* the application of the budget stabilization factor, Denver’s reduction equates to \$174 per pupil (but \$14.7 million in total based on Denver’s large pupil count). In contrast, Campo’s per pupil allocation before the application of the BSF is \$21,074. Based on the higher per pupil amount (driven by the size factor), Campo is absorbing a reduction of \$328 per funded pupil (\$16,409 in total with a funded pupil count of 50.0 FTE).
- Second, the budget stabilization factor only applies to *state* funds. While the calculation applies to *total program* (1.6 percent of total funding, including both state and local shares, in the current year), the factor cannot reduce the local share. Therefore, districts with sufficient local property tax bases and mill levies do not experience the full reduction (see Weld – Pawnee below).

The per pupil impact of the BSF depends on the district's formula per pupil funding and the local revenues available.



As shown on the following page, the magnitude of the BSF has fluctuated significantly with economic conditions, as both a dollar amount and as a percentage of total program funding. The BSF peaked at more than \$1.0 billion (representing 16.0 percent of formula-based total program funding) in FY 2012-13 before declining through FY 2019-20. Anticipated revenue shortfalls associated with the COVID-19 pandemic in FY 2020-21 forced the BSF back over \$1.0 billion. With additional revenues available for FY 2021-22, the General Assembly reduced the BSF in subsequent years to an all-time low of \$141.2 million (1.6 percent) in the current FY 2023-24 appropriation. Current law, as enacted in S.B. 23-287 (School Finance), requires the budget stabilization factor to be eliminated in FY 2024-25.

The BSF has fluctuated as both a dollar amount and percent of total program with economic conditions. (Nominal \$ in millions)



DETERMINING THE STATE AND LOCAL SHARES OF FUNDING

The formula’s calculations of each district’s per pupil allocation do not account for or determine whether the funding comes from state or local sources. Therefore, after determining each district’s allocation, Legislative Council Staff and the Department determine the state and local shares for each district based on the local revenues available.

Local property and specific ownership taxes provide the first source of revenue for each district's total program funding. Property taxes are based on each district's tax rate (the mill levy) and the portion of property value that is taxable (the assessment rate). Specific ownership taxes are paid when registering a motor vehicle. These local tax revenues are collected and expended by each school district, and thus are not reflected in the state budget. The FY 2023-24 appropriation anticipates a total of \$4.1 billion in local tax revenues will be available to support public schools pursuant to the statutory school finance formula (this amount does not include any mill levy override funds, as those amounts are outside of the school finance formula). State appropriations then fill the gap between local tax revenues and total program funding for each district. Thus, the General Assembly appropriated \$5.0 billion in state funding for FY 2023-24 to provide a total of \$9.1 billion for school district operations.

Two constitutional provisions, combined with a statutory provision in the School Finance Act of 1994, have limited property tax revenues available for public school operations:

- In 1982, voters approved a property tax reform measure that included a provision (generally called the "Gallagher amendment") that initially reduced the residential assessment rate from 30.0 percent to 21.0 percent, and then capped the residential share of property taxes at approximately 45 percent, which forced continued reductions in the residential assessment rate to maintain the residential share of property taxes as residential property values rose faster than overall property values.

- In 1992, voters approved the Taxpayer's Bill of Rights (TABOR). Prior to TABOR, local governments could generally collect and spend the same amount of property tax revenue each year by periodically increasing or decreasing mill levies. With respect to school district property taxes, TABOR: (1) imposes a property tax revenue limit based on inflation and changes in student enrollment; (2) prohibits districts from increasing a mill levy without voter approval; and (3) requires voter approval for any increase in assessment rates (which are set statewide).

As a result of the Gallagher amendment, the residential assessment rate declined from 30.00 percent to 7.15 percent. However, with the approval of Amendment B during the 2020 election, the voters repealed the Gallagher amendment, which resulted in the residential assessment rate remaining at 7.15 percent rather than continuing to decline based on the Gallagher formula. Senate Bill 21-293 (Property Tax Classification and Assessment Rates) reclassified several property types, including differentiating single family homes from multiple family units, and reduced assessment rates for certain property types for FY 2021-22 and FY 2022-23. Senate Bill 22-238 (2023 and 2024 Property Tax) reduced assessment rates for certain nonresidential properties and all residential properties for FY 2023-24 and FY 2024-25. The bill also transferred \$200 million from the General Fund to the State Public School Fund to offset declines in school finance property tax revenues in those years.

TABOR has also reduced local revenues as a share of total program funding by reducing school district mill levies from the uniform mill of 40.080 (established by the General Assembly in 1988) to disparate mill levies ranging from 1.680 to 27.000. Senate Bill 07-199 froze total program mill levies in most school districts starting in FY 2007-08 and stopped most districts' levies from continuing to decline. Two more recent bills (H.B. 20-1418 (School Finance) and H.B. 21-1164 (Total Program Mill Levy Tax Credit)) require certain school districts to increase mill levies that had been reduced in error in previous years. House Bill 20-1418 required the mill levy collections but also instituted a system of mill levy credits in affected districts that prevented any change in property taxes paid for FY 2020-21. However, with the enactment of H.B. 21-1164, affected districts began phasing out the mill levy credits at a rate of 1.0 mill per year in FY 2021-22, increasing the local revenues available for school finance.

The reductions in mill levies and assessment rates, in combination with the inflationary spending increases required by Amendment 23, have caused the local share of total program funding to increase at a slower rate than overall funding. As a result, the State's share of total program funding has increased over time. From CY 1988 to FY 2006-07, the state share of funding rose from 43.4 percent to 63.9 percent, while the local share fell from 56.6 percent to 36.1 percent. Since the implementation of S.B. 07-199, the relative state share of funding has fluctuated with changes in local assessed valuation and the inflationary demands of Amendment 23. The mill levy changes instituted by H.B. 20-1418 and H.B. 21-1164 are increasing local revenues (relative to the status quo scenario).

In summary, several factors affect the amount of state funding appropriated for public school finance, including:

- Pupil counts;
- The rate of inflation;
- Changes in the relative cost-of-living in various regions of the state;
- The number of at-risk students and English language learners enrolled in public schools;
- Fluctuations in local property and specific ownership tax revenues, as well as constitutional and statutory provisions that limit property tax revenues; and

- Changes in statutory definitions, procedures, or mathematical factors that affect the calculation of per-pupil funding or state aid for each district.

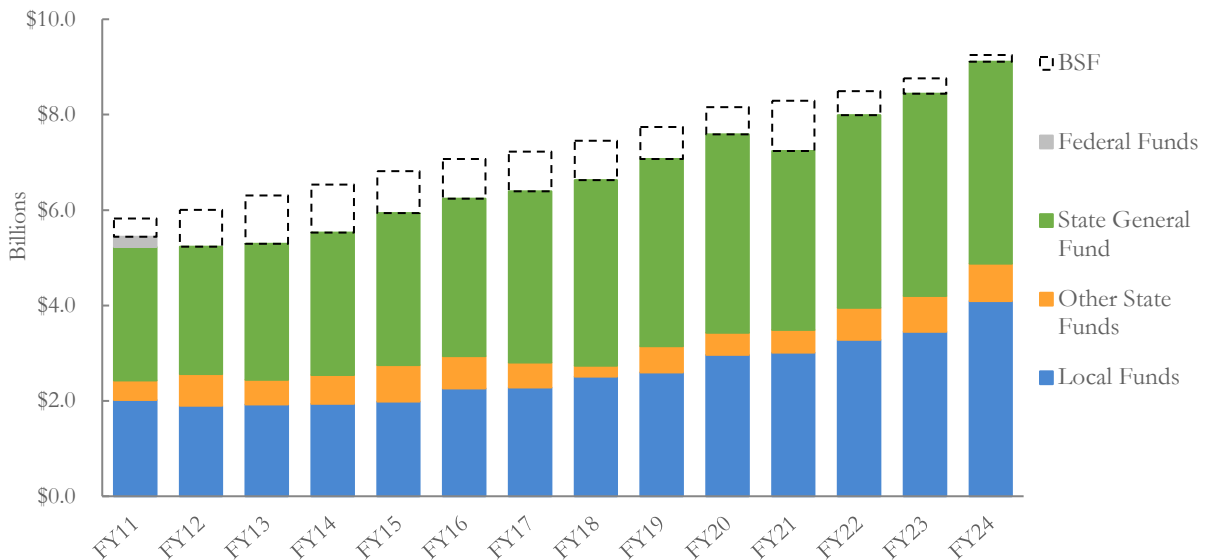
HISTORIC TRENDS

Total program funding and statewide average per pupil funding both increased relatively steadily from FY 2000-01 through FY 2009-10, pushed upward by the inflationary requirements associated with Amendment 23. Inflation-adjusted funding also increased over that period, largely because Amendment 23 required statewide base per pupil funding to increase by inflation plus 1.0 percent during that time. However, changing economic conditions and the implementation of the budget stabilization factor have added volatility since FY 2009-10.

The following graphic illustrates school districts’ total program funding by fund source from FY 2010-11 through FY 2023-24. The segments at the top of each bar illustrate the impact of the budget stabilization factor. Recent years’ appropriations have included the following major changes:

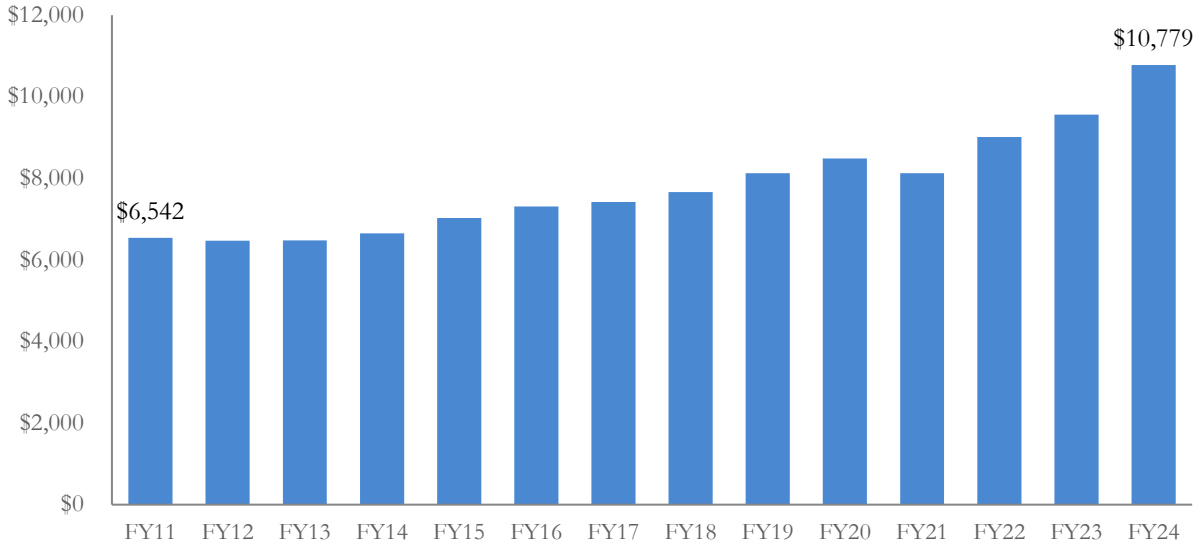
- Total program funding for FY 2019-20 included an increase of \$190.2 million (including \$182.9 million in state funding and \$7.3 million in local funding) associated with the transition to funding full-day kindergarten students as 1.0 student FTE as required by H.B. 19-1262 (State Funding for Full-day Kindergarten).
- The final FY 2020-21 appropriation fell \$347.4 million below the FY 2019-20 level, including a decrease of \$395.1 million in state funds that was partially offset by an increase in local funds. Combined with inflationary pressure on total program, the BSF increased by \$601.1 million, from \$572.4 million in FY 2019-20 to \$1.1 billion in FY 2020-21.
- Improved revenue collections and expectations allowed for increases in appropriations for FY 2021-22 through FY 2023-24, with significant increases in total program funding and reductions to the BSF.

Amendment 23 requires annual inflationary increases in the base for total program funding. However, revenue constraints since FY 2009-10 have prevented full funding, with the BSF representing the shortfall.



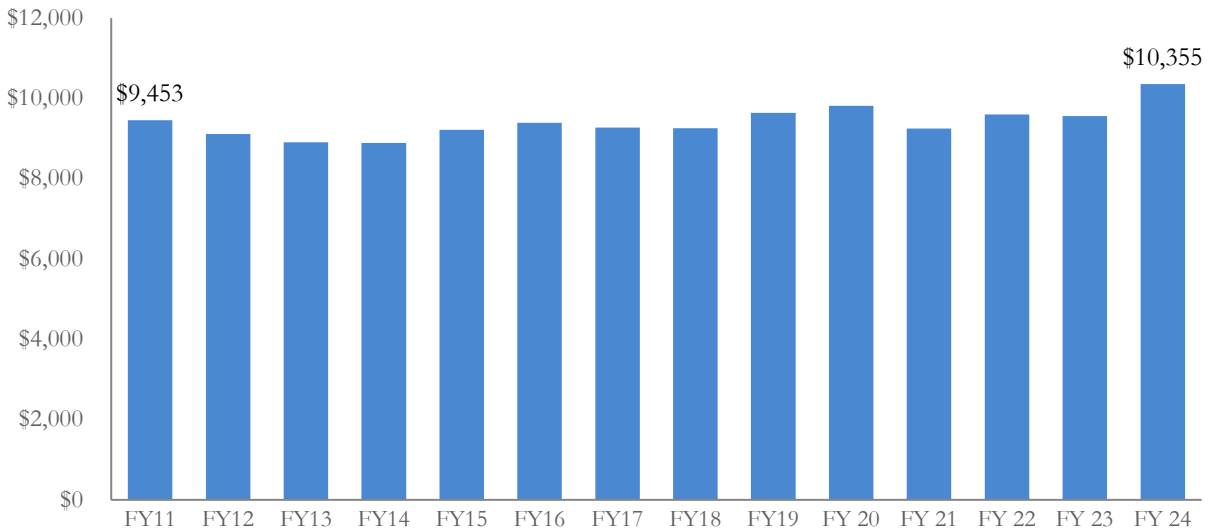
The previous chart looks at total program funding statewide. However, total funding ignores the impact of changes in enrollment. Because Colorado’s school finance formula operates on a per pupil basis, it is also informative to look at trends in funding per pupil. While per pupil funding varies widely between districts based on the factors outlined in previous sections, the statewide average can provide a useful metric. The following chart shows statewide average per pupil funding (*not* adjusted for inflation) for FY 2010-11 through FY 2023-24.

Statewide average per pupil funding has fluctuated based on economic conditions.



As shown below, adjusting for inflation changes the picture. The statewide average per pupil funding has remained relatively flat when adjusting for inflation using 2022 dollars.

Adjusting for inflation (shown in 2023 dollars), statewide average per pupil funding has fluctuated more over the same period.



The table on the following page shows key data related to school finance funding for the last five fiscal years, as well as the current (2023 Session) appropriations for FY 2023-24.

STAFF BUDGET BRIEFING

SCHOOL DISTRICTS' TOTAL PROGRAM FUNDING: KEY DATA						
DESCRIPTION	FY 2018-19 ACTUAL	FY 2019-20 ACTUAL ¹	FY 2020-21 ACTUAL	FY 2021-22 ACTUAL	FY 2022-23 ACTUAL	FY 2023-24 APPROP.
Funded Pupil Count	870,078	896,001	891,119	886,222	879,477	858,654
<i>Annual Percent Change</i>	<i>0.6%</i>	<i>3.0%</i>	<i>-0.5%</i>	<i>-0.5%</i>	<i>-0.8%</i>	<i>-3.1%</i>
<i>Change in Denver-Boulder Consumer Price Index for Previous Calendar Year</i>	<i>3.4%</i>	<i>2.7%</i>	<i>1.9%</i>	<i>2.0%</i>	<i>3.5%</i>	<i>8.0%</i>
Statewide <u>Base</u> Per Pupil Funding	\$6,769	\$6,952	\$7,084	\$7,225	\$7,478	\$8,076
<i>Annual Percent Change</i>	<i>3.4%</i>	<i>2.7%</i>	<i>1.9%</i>	<i>2.0%</i>	<i>3.5%</i>	<i>11.8%</i>
Statewide <u>Average</u> Per Pupil Funding	\$8,123	\$8,489	\$8,123	\$9,015	\$9,596	\$10,613
<i>Annual Percent Change</i>	<i>6.0%</i>	<i>4.5%</i>	<i>-4.3%</i>	<i>11.0%</i>	<i>6.4%</i>	<i>17.7%</i>
Total Program Funding²	\$7,067,290,190	\$7,605,978,828	\$7,238,343,519	\$7,989,164,350	\$8,439,302,433	\$9,112,822,456
<i>Annual Percent Change</i>	<i>6.6%</i>	<i>7.6%</i>	<i>-4.8%</i>	<i>10.4%</i>	<i>5.6%</i>	<i>14.1%</i>
<u>Local Share</u> of Total Program Funding	\$2,598,750,917	\$2,977,176,606	\$3,013,645,502	\$3,280,192,851	\$3,449,247,817	\$4,092,794,096
<i>Annual Percent Change</i>	<i>3.7%</i>	<i>14.6%</i>	<i>1.2%</i>	<i>8.8%</i>	<i>5.2%</i>	<i>18.7%</i>
<u>State Share</u> of Total Program Funding	\$4,468,539,273	\$4,628,802,222	\$4,224,698,017	\$4,708,971,499	\$4,990,054,616	\$5,020,028,360
<i>Annual Percent Change</i>	<i>8.4%</i>	<i>3.6%</i>	<i>-8.7%</i>	<i>11.5%</i>	<i>6.0%</i>	<i>0.6%</i>
<i>State Share as Percent of Districts' Total Program Funding</i>	<i>63.2%</i>	<i>60.9%</i>	<i>58.4%</i>	<i>58.9%</i>	<i>59.1%</i>	<i>55.1%</i>

¹ The FY 2019-20 appropriation includes an increase of 22,367.1 funded pupils and \$185.4 million state funds (in addition to \$7.3 million in local funds) associated with the implementation of full-day kindergarten under H.B. 19-1262.

² These figures reflect total program funding after application of the budget stabilization factor.

CATEGORICAL PROGRAMS

Programs designed to serve particular groups of students (e.g., students with disabilities and students with limited proficiency in English) or particular student needs (e.g., transportation) have traditionally been referred to as "categorical" programs. Unlike public school finance funding, there is no legal requirement that the General Assembly increase funding commensurate with the number of students eligible for any particular categorical program.

However, similar to total program funding, 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. For example, in calendar year 2022 the percentage change in the Denver-Aurora-Lakewood consumer price index was 8.0 percent, so the General Assembly was required to increase state funding for categorical programs by at least that amount (\$35.3 million) for FY 2023-24. With the enactment of S.B. 23-009 (Special Education Funding), the General Assembly actually added \$40.2 million cash funds from the State Education Fund in addition to \$16.4 million cash funds from the State Education Fund provided through S.B. 23-214 (Long Bill) and S.B. 23-287 (School Finance).

The General Assembly determines how to allocate the required increase among the various categorical programs each year. As shown in the table below, the General Assembly has increased annual state funding for categorical programs by \$355.8 million since FY 2000-01. In certain fiscal years (including FY 2022-23 and FY 2023-24), the General Assembly elected to increase state funding by more than the minimum, constitutionally-required amount, resulting in appropriations that are now \$216.4 million higher than the minimum amount that would have otherwise been required.

INCREASES IN STATE FUNDING FOR CATEGORICAL PROGRAMS SINCE FY 2000-01				
LONG BILL LINE ITEM	FY 2000-01 APPROPRIATION	FY 2023-24 APPROPRIATION	TOTAL INCREASE IN ANNUAL APPROPRIATION OF STATE FUNDS	
Special Education - Children with Disabilities	\$71,510,773	\$340,858,304	\$269,347,531	376.7%
English Language Proficiency Program	3,101,598	31,294,098	28,192,500	909.0%
Public School Transportation	36,922,227	68,379,237	31,457,010	85.2%
Career and Technical Education Programs	17,792,850	30,514,944	12,722,094	71.5%
Special Education - Gifted and Talented Children	5,500,000	14,677,532	9,177,532	166.9%
Expelled and At-risk Student Services Grant Program	5,788,807	9,499,542	3,710,735	64.1%
Small Attendance Center Aid	948,140	1,599,991	651,851	68.8%
Comprehensive Health Education	600,000	1,134,284	534,284	89.0%
Total	\$142,164,395	\$497,957,932	\$355,793,537	250.3%

SUMMARY: FY 2023-24 APPROPRIATION & FY 2024-25 REQUEST

DEPARTMENT OF EDUCATION						
	TOTAL FUNDS	GENERAL FUND	CASH FUNDS	REAPPROPRIATED FUNDS	FEDERAL FUNDS	FTE
FY 2023-24 APPROPRIATION:						
FY 2023-24 Long Bill	\$5,472,203,467	\$4,404,094,096	\$899,773,874	\$229,255	\$168,106,242	88.4
Other legislation	294,132,279	95,313	294,036,966	0	0	1.2
TOTAL	\$5,766,335,746	\$4,404,189,409	\$1,193,810,840	\$229,255	\$168,106,242	89.6
FY 2024-25 REQUESTED APPROPRIATION:						
FY 2023-24 Appropriation	\$5,766,335,746	\$4,404,189,409	\$1,193,810,840	\$229,255	\$168,106,242	89.6
R1 State share of total program	305,455,136	75,000,000	230,455,136	0	0	0.0
R2 Categorical programs increase	24,897,895	0	24,897,895	0	0	0.0
R5 School finance system modernization	200,000	200,000	0	0	0	0.0
Annualize prior year budget actions	642,253	95,712	60,786	0	485,755	0.1
Annualize prior year legislation	(39,419,040)	(95,313)	(39,323,727)	0	0	(0.9)
TOTAL	\$6,058,111,990	\$4,479,389,808	\$1,409,900,930	\$229,255	\$168,591,997	88.8
INCREASE/(DECREASE)	\$291,776,244	\$75,200,399	\$216,090,090	\$0	\$485,755	(0.8)
Percentage Change	5.1%	1.7%	18.1%	0.0%	0.3%	(0.9%)

R1 STATE SHARE OF TOTAL PROGRAM INCREASE [REQUIRES LEGISLATION]: The request includes a net increase of \$305.5 million state funds (including \$75.0 million General Fund and \$230.5 million cash funds) for the state share of districts’ total program funding in FY 2024-25. Based on the Office of State Planning and Budgeting (OSPB) September 2023 Revenue Forecast, and including OSPB’s projection of local revenues, the proposal would: (1) increase statewide average per pupil funding by \$705 (6.6 percent); and (2) eliminate the budget stabilization factor (BSF), which totals 141.2 million in FY 2023-24. The Department indicates that this request is evidence-informed per S.B. 21-284.

R2 CATEGORICAL PROGRAMS INCREASE: Amendment 23 requires the General Assembly to increase total state funding for all categorical programs (in aggregate) by at least the rate of inflation in FY 2024-25. The request, based on the OSPB-projected inflation rate for CY 2023 (5.0 percent), seeks an increase of \$24.9 million cash funds from the State Education Fund to support the required increase. The following table shows the requested allocation of funds by program. See the second issue brief in this document for a detailed discussion of the categorical programs allocation for FY 2024-25 and *Appendix C* for a discussion of the Department’s responses to the request for information associated with categorical funding.

R2 REQUESTED INCREASES IN STATE FUNDING FOR CATEGORICAL PROGRAMS				
LONG BILL LINE ITEM	FY 2023-24 APPROPRIATION	FY 2024-25 REQUEST	CHANGE IN STATE FUNDING	PERCENT CHANGE
Special Education - Children with Disabilities	\$340,858,304	\$355,756,068	\$14,897,764	4.4%
English Language Proficiency Program	31,294,098	35,343,922	4,049,824	12.9%
Public School Transportation	68,379,237	72,024,210	3,644,973	5.3%
Career and Technical Education Programs	30,514,944	32,324,498	1,809,554	5.9%
Special Education - Gifted and Talented Children	14,677,532	15,174,351	496,819	3.4%
Expelled and At-risk Student Services Grant Program	9,499,542	9,490,831	(8,711)	-0.1%
Small Attendance Center Aid	1,599,991	1,605,338	5,347	0.3%

STAFF BUDGET BRIEFING

R2 REQUESTED INCREASES IN STATE FUNDING FOR CATEGORICAL PROGRAMS				
LONG BILL LINE ITEM	FY 2023-24 APPROPRIATION	FY 2024-25 REQUEST	CHANGE IN STATE FUNDING	PERCENT CHANGE
Comprehensive Health Education	1,134,284	1,136,611	2,327	0.2%
Total	\$497,957,932	\$522,855,829	\$24,897,897	5.0%

R5 SCHOOL FINANCE SYSTEM MODERNIZATION: The request includes a one-time increase of \$200,000 General Fund to hire an independent contractor to evaluate the feasibility and estimate the cost of modernizing the State Equal and Audit modules of the Department’s School Finance System. Portions of the current system rely heavily on spreadsheet uploads rather than a database and are extremely prone to human error. Recent changes to school finance funding have highlighted the inadequacies of this system. The Department anticipates that the results of the feasibility will result in a FY 2025-26 budget request to implement a new system by July 2026. The request also makes reference to potentially accessing the School Finance Simulator maintained by Legislative Council Staff.

ANNUALIZE PRIOR YEAR BUDGET ACTIONS: The appropriation includes adjustments to reflect the out-year cost of FY 2023-24 R6 Personnel school support and salary survey increases.

ANNUALIZE PRIOR YEAR BUDGET ACTIONS						
	TOTAL FUNDS	GENERAL FUND	CASH FUNDS	REAPPROPRIATED FUNDS	FEDERAL FUNDS	FTE
Prior year salary survey	\$632,610	\$86,069	\$60,786	\$0	\$485,755	0.0
FY 2023-24 R6 Personnel support	9,643	9,643	0	0	0	0.1
TOTAL	\$642,253	\$95,712	\$60,786	\$0	\$485,755	0.1

ANNUALIZE PRIOR YEAR LEGISLATION: The appropriation includes adjustments for the out-year impacts of prior year legislation.

ANNUALIZE PRIOR YEAR LEGISLATION						
	TOTAL FUNDS	GENERAL FUND	CASH FUNDS	REAPPROPRIATED FUNDS	FEDERAL FUNDS	FTE
SB 23-287 Public school finance act	(\$39,323,727)	\$0	(\$39,323,727)	\$0	\$0	(0.4)
SB 23-094 Transportation task force	(95,313)	(95,313)	0	0	0	(0.5)
TOTAL	(\$39,419,040)	(\$95,313)	(\$39,323,727)	\$0	\$0	(0.9)

ISSUE: SCHOOL FINANCE ACT FUNDING PROJECTIONS

Current law requires the General Assembly to eliminate the budget stabilization factor for FY 2024-25, a reduction of \$141.2 million from FY 2023-24. Based on current Legislative Council Staff estimates of local share, revenues, and pupil counts, eliminating the BSF would require an additional \$52.0 million in state funding above the current FY 2023-24 appropriation. The December 2023 revenue forecast(s) will adjust many of the underlying assumptions related to state and local revenues as well as pupil counts.

SUMMARY

- Current law, as enacted in S.B. 23-287 (School Finance), requires the General Assembly to provide sufficient total program funding in FY 2024-25 to eliminate the budget stabilization factor. Based on current Legislative Council Staff estimates (updated in November 2023 to account for the Special Session), meeting the current law requirement for FY 2024-25 would require an increase of \$52.0 million total funds for the *state share* of total program funding. With an estimated increase of \$451.6 million in the *local share*, that equates to a \$503.7 million increase in total program funding.
- Based on Legislative Council Staff projections, the balance of the State Education Fund is projected to increase through FY 2027-28 even with the elimination of the BSF and holding the General Fund appropriation constant.
- The Governor's budget request for FY 2024-25 proposes to eliminate the BSF, as required by current law. The request includes an increase of \$305.5 million above the FY 2023-24 appropriation, including \$75.0 million General Fund and \$230.5 million cash funds. The Governor's request does not account for the impact of S.B. 23B-001 (Property Tax Relief) or incorporate updated local share data used during the 2023 Special Session.

RECOMMENDATION

Staff recommends that the Committee discuss school finance funding for FY 2024-25 with legislative leadership, the Education Committees, and the Governor's Office. Specifically:

- Staff recommends that the discussions include planning for total program funding over the next several years, with a specific focus on how to spend down or use the balance in the SEF.
- Staff also recommends that the Committee discuss how the General Assembly should plan for the cost of potential changes to the formula resulting from the new at-risk measure and forthcoming recommendations from the School Finance Task Force. As the projections in this issue brief are based on current law, staff has not attempted to include any additional costs associated with changes to the formula itself. The new at-risk measure is discussed later in this document.
- Barring changes to current law prior to Figure Setting, staff anticipates recommending setting the Long Bill appropriation for school finance to eliminate the budget stabilization factor in accordance with S.B. 23-287.

DISCUSSION

BACKGROUND – PROJECTION ASSUMPTIONS

Annual projections of education funding have generally included funding for two program areas: (1) public school finance and (2) categorical programs. Following the passage of Amendment 23³, the annual projections of funding for these two areas were straightforward. To reflect current law, staff based the projections on the existing statutory public school finance formula⁴, plus compliance with Amendment 23 requiring annual increases in the "base per pupil funding" component of the statutory formula and in state funding for categorical programs. Staff then calculated the necessary General Fund appropriations based on anticipated local funding from local property and specific ownership tax revenues, anticipated funding available from the SEF and the State Public School Fund, and compliance with the General Fund maintenance of effort requirement in Amendment 23.

Since 2010, the annual projections have changed in three ways.

- First, the projections incorporate the BSF. Thus, the “current law” amount is no longer generated solely through the statutory school finance formula.
- Second, in light of the uncertainty introduced by the budget stabilization factor, the General Assembly establishes a “current law” requirement for the *following fiscal year* during each legislative session. For example, H.B. 22-1390 required the General Assembly to prevent growth in the budget stabilization factor (as a dollar amount) from FY 2022-23 to FY 2023-24 and S.B. 23-287 prohibits the General Assembly from reducing total program funding through the use of the budget stabilization factor in FY 2024-25.
- Projections in recent years have included multiple scenarios to illustrate potential options for funding due to the flexibility provided by the budget stabilization factor. Given the General Assembly’s commitment to eliminate the BSF in FY 2024-25, staff will only be discussing the current law scenario and assuming the BSF will not be used again in the near future.

2025 PROJECTION ASSUMPTIONS

As discussed above, S.B. 23-287 set a statutory requirement barring the use of the BSF for the FY 2024-25 Long Bill appropriation.

Staff’s analysis for the FY 2024-25 request assumes the following:

- The revenue assumptions for the SEF are based on LCS revenue forecasts updated in November 2023 and including legislation enacted during the 2023 Special Session. Staff will update these projections based on the December 2023 revenue forecasts and any mid-year adjustments to FY 2023-24 for FY 2024-25 Figure Setting purposes.
- The revenue assumptions for the SPSF are based on the September 2023 LCS revenue forecast.
- FY 2023-24 figures incorporate local share data updated for the 2023 Special Session. Final local share data and pupil counts will drive the need for mid-year adjustments but are not available at this time.
- The General Assembly will increase state funding for categorical programs by the rate of inflation annually, as required by Amendment 23. Consistent with recent legislative actions, staff assumes the General Assembly will use SEF money to comply with this provision. Providing increases for

³ See Article IX, Section 17 of the State Constitution.

⁴ See Article 54 of Title 22, C.R.S.

categorical programs above the inflationary requirement would reduce the amount available for school finance.

- The General Assembly will continue to appropriate SEF money to support a variety of programs and functions other than school finance and categorical programs (totaling \$228.9 million in FY 2023-24). The projections assume a decrease for those other functions compared to FY 2023-24.
- Based on the current LCS revenue forecast and existing appropriations and transfers, legislative staff projects the State Education Fund will end FY 2024-25 with a balance of nearly \$1.9 billion and continue to grow through FY 2027-28. Staff assumes the General Assembly will hold the General Fund appropriation constant while using the SEF to pay for required increases each year.

Staff will update these projections again based on the Legislative Council Staff and Office of State Planning and Budgeting December 2023 revenue forecasts (including adjustments for inflation, SEF revenues, pupil enrollment, and property tax revenues), as well as any mid-year adjustments to appropriations for FY 2023-24.

UNCERTAINTY AND ASSUMPTIONS

School finance projections include some inherent uncertainty, outside of state revenues. Major variables that are always present include:

- *Enrollment:* Consistent with modeling from the Department and Legislative Council Staff, the projections include a reduction of 8,518 funded pupils (1.0 percent) in FY 2024-25 below the current estimates for FY 2023-24. The projections assume modest declines in enrollment (about 0.6 percent per year) in the subsequent years. Significant changes in enrollment projections would inherently drive changes in the cost of school finance.
- *Local Revenues:* The current FY 2023-24 appropriation assumes that local revenues will increase by \$821.3 million (23.8 percent) above FY 2022-23 collections. The current 2023 projection assumes increases of 10.6 percent in FY 2024-25, 8.9 percent in FY 2025-26, and 2.9 percent in FY 2026-27 and FY 2027-28. Staff notes that any change in those projections (up or down) would directly impact the state aid necessary to support a given level of total program funding. These projections are based on current law and do not include any attempt to anticipate additional action by the General Assembly or changes made through citizen-initiated ballot measures.
- *Inflation:* Finally, the September 2023 LCS forecast projects inflation rates of 4.9 percent for calendar year 2023 (driving appropriation requirements for FY 2024-25), 3.2 percent for FY 2025-26, and 2.7 percent for FY 2026-27. Increases or decreases in the inflation rate directly impact the required appropriations for both school finance and categorical programs. The General Assembly will learn the final inflation rate for CY 2023 prior to making appropriations for FY 2024-25.

Specific to FY 2024-25, staff highlights two additional points of uncertainty:

- *Formula Changes:* House Bill 22-1202 (At-risk Student Measure for School Finance) required changes to the at-risk factor beginning in FY 2023-24, which were postponed until FY 2024-25 by S.B. 23-287. Staff has not attempted to estimate the cost of the revised factor in these projections; a discussion of the new measure is included later in this document. Additionally, S.B. 23-287 created the School Finance Task Force to recommend changes to the school finance formula for FY 2024-25. The Task Force's recommendations are due to the General Assembly by January 31, 2024.
- *ASCENT:* House Bill 22-1390 eliminated the "cap" on Accelerating Students through Concurrent Enrollment (ASCENT) participants and lowered the requirements to qualify for the program

beginning in FY 2022-23. Prior to that change, the General Assembly set the cap each year in a Long Bill footnote (500 slots per year in recent years). The Department reports that there were 625 ASCENT participants in FY 2022-23 and estimates enrollment at 1,239 student FTE in FY 2023-24. A detailed discussion of ASCENT funding can be found in the Department of Education – Programs Other Than School Finance and Categorical Programs Briefing dated November 30, 2023.

2023 PROJECTION (FY 2023-24 THROUGH FY 2027-28)

Due to the current law requirement to eliminate the budget stabilization factor in FY 2024-25, staff is only providing one scenario to project total program funding through FY 2027-28. This scenario holds the General Fund appropriation constant and assumes required increases in state share will be paid for by the State Education Fund. As shown below, the balance of the SEF is projected to increase even while holding General Fund appropriations flat. As previously noted, the underlying data included in this projection is likely to change based on the December 2023 revenue forecasts, which will include updated estimates of the local share, cash fund revenues for the SEF and the SPSF, enrollment, and inflation. This projection does not account for potential changes for the current year (FY 2023-24) appropriation that will be made through the mid-year adjustment bill.

STATE EDUCATION FUND PROJECTION					
	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28
Total Program <u>Before</u> BSF	\$9,254,065,940	\$9,616,482,098	\$9,793,128,192	\$9,995,957,059	\$10,225,860,923
BSF	(141,243,484)	0	0	0	0
Total Program <u>After</u> BSF	\$9,112,822,456	\$9,616,482,098	\$9,793,128,192	\$9,995,957,059	\$10,225,860,923
<i>Funded Pupil Count</i>	<i>858,654</i>	<i>850,137</i>	<i>844,550</i>	<i>839,379</i>	<i>836,109</i>
<i>Average Per Pupil Revenue</i>	<i>\$10,613</i>	<i>\$11,312</i>	<i>\$11,596</i>	<i>\$11,909</i>	<i>\$12,230</i>
Local Share of Funding	\$4,270,538,067	\$4,722,152,084	\$5,142,423,620	\$5,291,553,905	\$5,445,008,968
<i>Annual Percent Change</i>	<i>23.8%</i>	<i>10.6%</i>	<i>8.9%</i>	<i>2.9%</i>	<i>2.9%</i>
State Share of Funding	\$4,842,284,389	\$4,894,330,014	\$4,650,704,572	\$4,704,403,154	\$4,780,851,956
State Public School Fund	295,777,864	108,450,359	108,450,359	108,450,359	108,450,359
State Education Fund (SEF)	307,819,664	547,192,794	303,567,352	357,265,934	433,714,736
General Fund	4,238,686,861	4,238,686,861	4,238,686,861	4,238,686,861	4,238,686,861
SEF Beginning Balance	\$1,429,188,317	\$1,654,229,358	\$1,870,776,250	\$2,228,434,408	\$2,618,787,170
SEF Deposits					
Income taxes (LCS forecast)	1,053,800,000	1,100,800,000	1,164,300,000	1,235,787,080	1,311,663,409
GF surplus transfer (LCS forecast)	0	0	0	0	0
Other transfers	0	146,000,000	0	0	0
Interest earnings	42,130,877	43,306,329	45,038,808	46,650,618	47,936,214
Total Deposits	\$1,095,930,877	\$1,290,106,329	\$1,209,338,808	\$1,282,437,698	\$1,359,599,623
SEF Expenditures					
School finance	\$307,819,664	\$547,192,794	\$303,567,352	\$357,265,934	\$433,714,736
At Risk Funding	0	0	0	0	0
Categorical programs	334,192,458	358,592,397	375,307,849	389,862,829	404,810,793
Other spending	228,877,715	167,774,246	172,805,449	144,956,172	121,809,556
Total Expenditures	\$870,889,837	\$1,073,559,437	\$851,680,650	\$892,084,935	\$960,335,085
SEF Ending Balance	\$1,654,229,358	\$1,870,776,250	\$2,228,434,408	\$2,618,787,170	\$3,018,051,709

GOVERNOR’S FY 2024-25 BUDGET REQUEST

Relative to the current FY 2023-24 appropriation, the Governor’s budget request proposes an increase of \$305.5 million in state funding for school finance in FY 2024-25, including a \$75.0 million General Fund increase and a net of \$198.3 million cash funds. The proposal eliminates the BSF as required by S.B. 23-287. As noted above, the Governor’s request differs vastly from the JBC/Legislative Council Staff scenario due to Legislative Council Staff incorporating information used during the 2023 Special Session into the projections.

The following table shows the Governor’s FY 2024-25 request relative to the current FY 2023-24 appropriation.

FY 2024-25 GOVERNOR'S REQUEST			
	FY 2023-24 Appropriation	Requested Change (FY 2024-25 R1)	Total FY 2024-25 Request
Funded Pupil Count	858,654	(3,606)	855,048
Total Program Funding Before BSF	\$9,255,045,072	\$421,937,505	\$9,676,982,577
Local Share	\$4,092,805,709	\$258,693,371	\$4,351,499,080
State Share			
General Fund	\$4,238,686,861	\$75,000,000	\$4,313,686,861
State Education Fund	485,563,635	437,612,256	923,175,891
State Public School Fund	<u>295,777,864</u>	<u>(207,157,120)</u>	<u>88,620,744</u>
Subtotal - State Share	\$5,020,028,360	\$305,455,136	\$5,325,483,496
Total Program Funding After BSF	\$9,112,834,069	\$564,148,508	\$9,676,982,577
Budget Stabilization Factor	142,211,003	(142,211,003)	0
State Education Fund Ending Balance	\$1,425,268,754	(\$488,498,428)	\$936,770,326

CONCLUSION

The elimination of the budget stabilization factor in FY 2024-25 reduces the number of scenarios that must be taken into consideration when projecting future school finance costs. Legislative Council Staff projections show a growing balance in the State Education Fund even without the BSF while holding General Fund appropriations for total program constant. The OSPB request does not factor in any of the updated information that was used during the 2023 Special Session and incorporated into the LCS projection, therefore a comparison between the two is not useful at this time. Much of the information in this section will change with both agencies’ updated December 2023 forecasts and final pupil count and local share data provided in January 2024.

ISSUE: ALLOCATION OF THE INCREASE TO CATEGORICAL PROGRAMS FOR FY 2024-25

Amendment 23 requires the total amount of state funding appropriated for categorical programs to increase by at least the rate of inflation, and the General Assembly has the authority to allocate the mandatory increase among the various categorical programs. Historically, the Committee and the General Assembly generally allocated that increase based on a formula that considers the difference between state and federal funding provided for each program and the total amount that school districts actually spend on the program/services. In FY 2022-23 and FY 2023-24, the General Assembly passed legislation to provide additional funding for special education programs for children with disabilities in excess of the required inflationary increase.

SUMMARY

- Amendment 23 requires the total amount of state funding for categorical programs to increase annually by at least the rate of inflation but the allocation of the annual increase among the eight programs is at the discretion of the General Assembly. In most years, the Long Bill has allocated the increase based on the difference between state and federal funding for a program and school district's actual expenditures for that purpose in the most recent year for which that information is available (e.g., the difference between state and federal funding provided for special education versus the total amount that districts have spent on special education services).
- Based on discussions surrounding the passage of S.B. 23-099 (Special Education Funding), staff assumes it is the General Assembly's intent to fully fund special education programs for children with disabilities up to the statutory maximum. The maximum funding will be based on FY 2023-24 pupil counts, which are not available at this time. Staff will incorporate that information prior to Figure Setting and recommend the Committee provide full funding in the Long Bill, with the remaining required inflationary increase allocated among the other categorical programs.

RECOMMENDATION

Staff recommends that the Committee discuss the allocation of the required increase in categorical funding for FY 2024-25 with interested parties, including the Department, the Governor's Office (who proposed the allocation in request R2 in collaboration with the Department), and with the Education Committees. Specially, the Committee should ask the Department to discuss the estimated magnitude of the increase required to fully fund special education programs for children with disabilities during the departmental hearing scheduled for December 12, 2023.

DISCUSSION

BACKGROUND - CONSTITUTIONAL FUNDING REQUIREMENT

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. Unlike public school finance funding, there is no legal requirement that the General Assembly increase funding commensurate with the number of students eligible for any particular categorical program.

However, similar to total program funding, 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. For example, in calendar year 2022 the percentage change in the Denver-Aurora-Lakewood consumer price index was 8.0 percent, so the General Assembly was required to increase state funding for categorical programs by at least that amount (\$35.3 million) for FY 2023-24. With the enactment of S.B. 23-009 (Special Education Funding), the General Assembly actually added \$40.2 million cash funds from the State Education Fund in addition to \$16.4 million cash funds from the State Education Fund provided through S.B. 23-214 (Long Bill) and S.B. 23-287 (School Finance).

The General Assembly determines how to allocate the required increase among the various categorical programs each year. As shown in the table below, the General Assembly has increased annual state funding for categorical programs by \$355.8 million since FY 2000-01. In certain fiscal years (including FY 2022-23 and FY 2023-24), the General Assembly elected to increase state funding by more than the minimum, constitutionally-required amount, resulting in appropriations that are now \$216.4 million higher than the minimum amount that would have otherwise been required.

INCREASES IN STATE FUNDING FOR CATEGORICAL PROGRAMS SINCE FY 2000-01				
LONG BILL LINE ITEM	FY 2000-01 APPROPRIATION	FY 2023-24 APPROPRIATION	TOTAL INCREASE IN ANNUAL APPROPRIATION OF STATE FUNDS	
Special Education - Children with Disabilities	\$71,510,773	\$340,858,304	\$269,347,531	376.7%
English Language Proficiency Program	3,101,598	31,294,098	28,192,500	909.0%
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Career and Technical Education Programs	17,792,850	30,514,944	12,722,094	71.5%
Special Education - Gifted and Talented Children	5,500,000	14,677,532	9,177,532	166.9%
Expelled and At-risk Student Services Grant Program	5,788,807	9,499,542	3,710,735	64.1%
Small Attendance Center Aid	948,140	1,599,991	651,851	68.8%
Comprehensive Health Education	600,000	1,134,284	534,284	89.0%
Total	\$142,164,395	\$497,957,932	\$355,793,537	250.3%

The constitution also requires that money from the State Education Fund not supplant the level of General Fund appropriations existing on December 28, 2000, for categorical programs [see Section 17 (5) of Article IX of the Colorado Constitution]. This provision actually requires the General Assembly to maintain an appropriation of at least \$141,765,474 General Fund (the amount appropriated as of December 28, 2000); however, the General Assembly added \$22.0 million General Fund to the Special Education Programs for Children with Disabilities line item in FY 2019-20 through S.B. 19-246 (School Finance), so the current appropriation includes \$163,765,474 General Fund.

Finally, please note that pursuant to Section 22-55-107 (3), C.R.S., for the 2008-09 budget year and each budget year thereafter, on or before February 15, "the education committees of the house of representatives and senate, or any successor committees, may submit to the joint budget committee of the general assembly a joint recommendation regarding the allocation of the increase in total state funding for all categorical programs as required by subsection (1) of this section for the next budget year. The joint budget committee shall consider but shall not be bound by any joint recommendations made pursuant to this subsection (3) when developing the annual general appropriation bill for the

budget year for which the joint recommendation is made". To date, these Committees have not made any such recommendation.⁵

JBC STAFF MODEL TO ALLOCATE THE ANNUAL INCREASE

Since December 2006, staff has recommended that the Committee consider four factors when allocating state funds among categorical programs:

- 1 Are districts statutorily required to provide the services?
- 2 If the program has a statutory reimbursement formula, how close does state funding come to the maximum statutory reimbursement?
- 3 What percent of districts' actual expenditures are covered by state and federal funds?
- 4 Are districts' expenditures for providing the service proportionate, or are certain districts impacted significantly more than others?

For years, the Department and staff have used similar mechanisms to allocate the Constitutionally-required increases among categorical line items, based on the difference between state and federal funding provided for a program and school districts' actual expenditures. Thus, programs with a larger gap between state and federal funds and total district expenditures (those for which school districts are absorbing the greatest cost within their budgets) receive the largest increase.

This model has typically:

- Allocated the largest *dollar amount* to special education programs for children with disabilities because that line item has the largest shortfall in terms of the amount of money.
- Allocated the largest *percentage* increase to the English language proficiency program because that line item has had the largest shortfall in percentage terms.

The cumulative changes from FY 2000-01 through FY 2023-24 are shown in the previous table, with special education for children with disabilities increasing by \$269.3 million (376.7 percent) and funding for the English Language Proficiency Program (including only the categorical funding) increasing by \$28.2 million (909.0 percent). The Committee should note that the FY 2022-23 appropriation included an \$80.0 million increase for special education provided through S.B. 22-127 and the FY 2023-24 appropriation includes a \$40.2 million increase for special education provided through S.B. 23-099.

CONSIDERATIONS FOR THE ALLOCATION FOR FY 2024-25

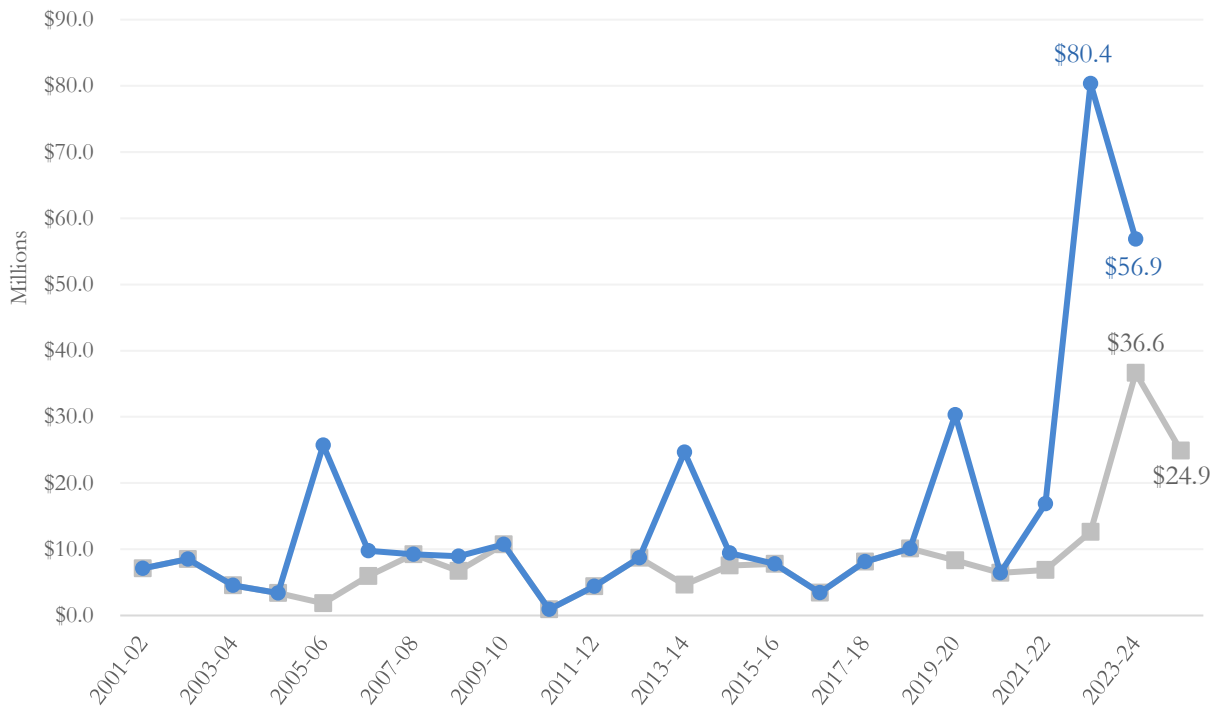
Staff expects to continue to recommend allocations based on this model as the most defensible *analytical* allocation among the various programs. However, a relatively large required inflationary increase and recent policy changes aimed at fully funding special education for children with disabilities should factor into allocation decisions.

⁵ S.B. 22-127 (Special Education Funding) and S.B. 23-099 (Special Education Funding), which increased funding for special education programs for children with disabilities, originated as bills from the Interim Committee on School Finance rather than as a specific recommendation from the Education Committees to the Joint Budget Committee.

HIGH INFLATION

Inflation in the Denver-Aurora-Lakewood statistical area reached 8.0 percent in calendar year 2022 and is projected at 5.0 percent for calendar year 2023 in the OSPB September 2023 forecast. While the \$24.9 million increase anticipated for FY 2024-25 is well below the \$56.9 million increase that the General Assembly provided in FY 2023-24, it is the second highest *required* inflationary increase since the adoption of Amendment 23 (see chart below). The Committee should note that this is because of the current inflationary environment and the fact that the inflation rate is inherently applying to an ever-increasing base of funding as a result of the annual increases. The following graphic shows the inflationary increase *required* by Amendment 23 for each year since 2000-01 and the actual increases provided each year.

Actual increases have exceeded required inflationary increases in recent years even with historically high inflation.



Staff does not have an *analytical* rationale that appears to be a better mechanism than the standard model to allocate the increase for FY 2024-25. However, in light of the magnitude of the required increase, staff recognizes that the General Assembly has another unique opportunity to focus significant funding on specific priorities – without necessarily having to go above the inflationary increase. Based on that (and particularly in light of the information in the following section), staff recommends that the Committee discuss this situation with interested stakeholders and colleagues and consider whether to focus the funds on specific goals for FY 2024-25.

POLICY CHANGES AND THE TIME LAG FOR ACTUAL EXPENDITURES

Recent policy changes for special education funding might complicate the use of the “standard” allocation model for FY 2024-25 because those changes are not captured in school district’s FY 2021-22 actual expenditures (the most recent expenditures available). As discussed above, S.B. 22-127 added

\$80.0 million cash funds from the State Education Fund in FY 2022-23 and requires inflationary adjustments for Tier A and Tier B per pupil amounts beginning in FY 2024-25. S.B. 23-099 added \$40.2 million cash funds from the State Education Fund in FY 2023-24. Because the JBC staff allocation model is using appropriations and expenditures from FY 2021-22, the significant increase in funding for special education for children with disabilities is not reflected in the model. The General Assembly's stated intent with the passage of S.B. 23-099 was to provide the statutory maximum amount of Tier B. The amount required to fully fund special education for children with disabilities in FY 2024-25 will be estimated based on FY 2023-24 pupil counts, which are not yet available. Staff will prepare a scenario for Figure Setting that fully funds special education at the statutory maximum and allocates the remaining inflationary increase among the other categorical programs.

CONCLUSIONS

In light of the relatively large required inflationary increase and recent changes to special education funding, staff recommends that the Committee and the General Assembly consider whether to fully fund special education at the statutory maximum before allocating the increase among other categorical programs. Additionally, staff recommends the Committee ask the Department to discuss the estimated magnitude of the increase required to fully fund special education at the departmental hearing scheduled for December 12, 2023.

For the Committee's reference, the following pages include three tables associated with categorical funding that reflect different lenses through which to consider the increase for FY 2024-25.

- Table A shows the gap between state and federal funding and actual local expenditures in FY 2021-22, the data which would drive the standard JBC Staff allocation model.
- Table B shows the gap between FY 2022-23 funding levels and "full funding" for the programs with statutory formulas for that year. In this case "full funding" would reflect the statutory amounts for each program – but would not reflect district expenditures.
- Table C summarizes the standard allocation method used by staff, the allocation requested by the Department, and two other potential options for illustrative purposes.

TABLE A: CATEGORICAL PROGRAM REVENUES AND EXPENDITURES: FY 2021-22

Long Bill Line Item	(a) State Funds	(b) Federal Funds	(c) = (a) + (b) Total State and Federal Funds	(d) Total District Expenditures	(e) = (c)/(d) State/Federal Share of Expenditures	(f) = (d) - (c) Local Share of Expenditures
District Programs Required by Statute						
Special Education - Children with Disabilities ^a	\$261,860,118	\$160,427,989	\$422,288,108	\$1,218,403,808	34.7%	\$796,115,701
English Language Proficiency Program ^b	66,104,752	9,566,793	75,671,545	292,088,445	25.9%	216,416,900
Other Categorical Programs						
Public School Transportation	63,390,893	0	63,390,893	258,173,127	24.6%	194,782,233
Career and Technical Education	28,244,361	6,820,588	35,064,949	131,764,984	26.6%	96,700,035
Special Education - Gifted and Talented Children	12,386,862	0	12,386,862	38,936,186	31.8%	26,549,324
TOTAL	\$431,986,986	\$176,815,371	\$608,802,357	\$1,939,366,551		\$1,330,564,193

^a State funding includes Public School Finance Act funding for preschool children with disabilities.

^b State funds include funding through the English Language Learner factor included in the total program calculation (net of the budget stabilization factor).

TABLE B: MAXIMUM AMOUNT OF STATE FUNDS DISTRICTS WERE STATUTORILY ELIGIBLE TO RECEIVE FOR FY 2022-23

Long Bill Line Item	Description of What Determines Maximum State Funding	Total State Funds	Maximum State Funding	Percent of Maximum Covered by State Funds	Estimated Increase Required to Fund Statutory maximum
District Programs Required by Statute					
Special Education - Children With Disabilities ^a	Driven by the number of children requiring special education services, characteristics of the children eligible for such services, and the cost of such services	\$300,518,566	\$334,306,500	89.9%	\$33,787,934
English Language Proficiency Program ^b	Driven by the number of eligible students and statewide average per pupil operating revenue	25,257,335	112,955,663	22.4%	87,698,328
Other Categorical Programs (with specified statutory reimbursement levels)					
Public School Transportation	Driven by total miles traveled and total transportation-related costs (excluding capital outlay expenses)	66,864,800	109,279,153	61.2%	42,414,352
Colorado Vocational Distributions Act	Driven by the number of students participating in vocational education programs and the costs of such services per FTE in relation to each districts per pupil operating revenue	28,644,361	33,306,946	86.0%	4,662,585
Small Attendance Center Aid	Driven by the number of eligible schools, such schools' enrollment, and eligible districts' per pupil funding	1,314,250	1,599,991	82.1%	285,741
TOTAL					\$168,848,939

^a The estimated increase to fund the statutory maximum for special education for children with disabilities in FY 2022-23 is based on the following: \$189,533,750 for Tier A (\$1,750 for each student with disabilities); \$143,888,000 for Tier B (assuming districts received \$6,000 per student for 100 percent of the 23,898 students with specified disabilities, rather than for 72.0 percent for these students); \$4,000,000 for high cost grants; and \$500,000 for "educational orphans." Staff has not attempted to estimate the costs of "fully funding" the high cost grant program.

^b The State funds provided for the English Language Proficiency Program in FY 2021-22 only reflect categorical program funding amounts. They do *not* include amounts in the school finance formula associated with the English language learners (ELL) factor added to the formula through S.B. 21-268 (School Finance).

TABLE C: OPTIONS FOR THE ALLOCATION OF THE INCREASE IN STATE FUNDING FOR CATEGORICAL PROGRAMS IN FY 2024-25

Long Bill Line Item	FY 23-24 Appropriation	EXAMPLES OF OPTIONS FOR ALLOCATING REQUIRED INCREASE							
		A: Standard Model		B: Department Request		C: Equal Pct. Required Progs		D: Equal Pct. All Progs	
			%		%		%		%
Special education programs for children with disabilities	\$340,858,304	\$14,897,144	4.4%	\$14,897,764	4.4%	\$22,804,246	6.7%	\$17,042,915	5.0%
English language proficiency programs	31,294,098	4,049,655	12.9%	4,049,824	12.9%	\$2,093,651	6.7%	1,564,705	5.0%
Public school transportation	68,379,237	3,644,821	5.3%	3,644,973	5.3%	0	0.0%	3,418,962	5.0%
Career and technical education	30,514,944	1,809,479	5.9%	1,809,554	5.9%	0	0.0%	1,525,747	5.0%
Special education programs for gifted and talented	14,677,532	496,799	3.4%	496,819	3.4%	0	0.0%	733,877	5.0%
Expelled and at-risk student services grant program	9,499,542	0	0.0%	(8,711)	-0.1%	0	0.0%	474,977	5.0%
Small attendance center aid	1,599,991	0	0.0%	5,347	0.3%	0	0.0%	80,000	5.0%
Comprehensive health education	1,134,284	0	0.0%	2,327	0.2%	0	0.0%	56,714	5.0%
Totals	\$497,957,932	\$24,897,897	5.0%	\$24,897,897	5.0%	\$24,897,897	5.0%	\$24,897,897	5.0%

Description of Potential Allocation Options

A: Standard model, based on OSPB projected 8.3 percent inflation rate.

B: Department request, based on OSPB September Revenue Forecast inflation rate (5.0 percent)

C: Provide a 6.7% increase for special education programs for children with disabilities and English language proficiency (programs required by federal statute).

D: Provide the same percentage increase for all programs.

ISSUE: NEW AT-RISK FACTOR

SUMMARY

House Bill 22-1202 (At-risk Student Measure for School Finance) created a new at-risk measure for the school finance formula for use starting in FY 2023-24 and established a working group to determine how to calculate and implement the new measure. S.B. 23-287 (School Finance) delayed implementation of the new measure until FY 2024-25 and requires the Department of Education to conduct pre-implementation modeling and report findings to the General Assembly by January 5, 2024. The measure uses an identified student percentage (ISP) count and a neighborhood socioeconomic status (SES) index to calculate an imputed at-risk count for each district. The Department is currently working through challenges surrounding data collection for the updated measure, including working with nine pilot districts to test the upload process and determine whether actual data provided by those districts is similar to estimates provided by the Urban Institute.

RECOMMENDATION

Staff recommends that the Committee ask the Department to discuss potential implementation challenges of the new at-risk factor at its upcoming hearing. Staff will keep the Committee informed of any new information received from Legislative Council Staff and the Department as they continue to work toward implementation.

DISCUSSION

House Bill 22-1202 (At-risk Student Measure for School Finance) created a new at-risk measure for the school finance formula and established a working group to determine how the new measure will be implemented. The new measure includes an identified student percentage (ISP) count and a neighborhood socioeconomic status (SES) index.

The ISP is a total of directly certified students plus categorically eligible students.

- **Directly certified students:** Students who are administratively linked to their household's participation in SNAP, TANF, or Migrant Education Program.
- **Categorically eligible students:** Students who are homeless, runaway, in foster care, participate in Head Start, and migrant students.
- Eligible children may also be certified for free meals through participation in Medicaid or Children's Basic Health Plan Plus.

This ISP headcount replaces using a count of students who qualify for free or reduced price lunch. The Department is currently reviewing ISP counts under the new measure and expects to have preliminary numbers as early as this week.

The working group was tasked with developing the SES index, including determining what data points to include and developing at least five index factors based on each student's census block group. The SES index is recommended to include the following data points from the American Community Survey (ACS):

- Share of those in the same residence as last year;

- Share of adults age 25 or older with a bachelor's degree or higher;
- Share of children under 18 who are adopted, foster, or living with relatives that are not their biological parents;
- Median household income;
- Share of occupied housing units with more than 0.5 occupants per room;
- Average ratio of income to rental/ownership costs; and
- Share of children age 5 to 17 who speak non-English at home.

The SES index divides each census block group into one of five socio-economic status quintiles, with *1 being the highest need* and *5 being the lowest need*.

The working group did not provide a definitive recommendation on how to weight the ISP count versus the SES index, nor has a definitive weighting among quintiles been determined. However, the Legislative Council Staff School Finance tool does allow for all possible weighting schemes to be tested.

The SES index relies on districts' ability to upload geocoded addresses each year based on October pupil information, which generates the census block group information for each student. This task could prove challenging for small districts with limited staff. Additionally, ACS data is based on random samples of households and therefore has a high margin of error at the block group level (the smallest level for which ACS data is available). The Department is currently working with nine pilot districts to collect this data in the coming weeks and will be working with Legislative Council Staff to analyze how the actual data compares to modeled data provided by the Urban Institute for the development of the factor.

The Department plans to provide feedback to Legislative Council Staff on the actual data collected by December 20th. Legislative Council Staff is working to identify other areas of concern surrounding the new at-risk measure; staff will update the Committee as new information becomes available.

APPENDIX A NUMBERS PAGES

Appendix A details actual expenditures for the last two state fiscal years, the appropriation for the current fiscal year, and the requested appropriation for next fiscal year. This information is listed by line item and fund source.

Appendix A: Numbers Pages

	FY 2021-22 Actual	FY 2022-23 Actual	FY 2023-24 Appropriation	FY 2024-25 Request	Request vs. Appropriation
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DEPARTMENT OF EDUCATION Susana Cordova, Commissioner

(3) SCHOOL DISTRICT OPERATIONS

This section provides funding that is distributed to public schools and school districts, as well as funding for Department staff who administer this funding or who provide direct support to schools and school districts.

(A) Public School Finance

Administration	<u>1,867,742</u>	<u>1,932,724</u>	<u>12,243,891</u>	<u>2,071,835</u> *
FTE	17.4	15.1	15.5	14.7
General Fund	1,775,457	1,853,111	1,737,074	1,937,473
Cash Funds	92,285	79,613	10,506,817	134,362
Reappropriated Funds	0	0	0	0
Federal Funds	0	0	0	0
Financial Transparency System Maintenance	<u>76,208</u>	<u>87,884</u>	<u>89,172</u>	<u>92,786</u>
FTE	1.0	0.8	1.0	1.0
Cash Funds	76,208	87,884	89,172	92,786
State Share of Districts' Total Program Funding	<u>4,708,971,499</u>	<u>4,990,054,616</u>	<u>5,020,028,360</u>	<u>5,325,483,496</u> *
General Fund	2,994,934,217	4,238,686,861	3,057,493,696	3,132,493,696
General Fund Exempt	1,045,914,612	0	1,181,193,165	1,181,193,165
Cash Funds	668,122,670	751,367,755	781,341,499	1,011,796,635
School Finance Audit Payments	<u>517,486</u>	<u>205,165</u>	<u>3,000,000</u>	<u>3,000,000</u>
Cash Funds	517,486	205,165	3,000,000	3,000,000

Appendix A: Numbers Pages

	FY 2021-22 Actual	FY 2022-23 Actual	FY 2023-24 Appropriation	FY 2024-25 Request	Request vs. Appropriation
At-risk Per Pupil Additional Funding	<u>5,000,000</u>	<u>5,000,000</u>	<u>5,000,000</u>	<u>5,000,000</u>	
Cash Funds	5,000,000	5,000,000	5,000,000	5,000,000	
At-risk Supplemental Aid	<u>4,686,853</u>	<u>4,077,711</u>	<u>4,844,358</u>	<u>4,844,358</u>	
Cash Funds	4,686,853	4,077,711	4,844,358	4,844,358	
District Per Pupil Reimbursements for Juveniles Held in Jail	<u>0</u>	<u>0</u>	<u>10,000</u>	<u>10,000</u>	
General Fund	0	0	0	0	
Cash Funds	0	0	10,000	10,000	
Additional Funding for Rural Districts and Institute					
Charter Schools	<u>29,999,974</u>	<u>34,999,962</u>	<u>30,000,000</u>	<u>0</u>	
Cash Funds	29,999,974	34,999,962	30,000,000	0	
Mill Levy Override Matching Pursuant to Sec. 22-54-107.9, C.R.S.	<u>0</u>	<u>9,999,981</u>	<u>23,376,536</u>	<u>23,376,536</u>	
Cash Funds	0	9,999,981	23,376,536	23,376,536	
Contingency Reserve Fund	<u>0</u>	<u>0</u>	<u>1,000,000</u>	<u>1,000,000</u>	
Cash Funds	0	0	1,000,000	1,000,000	
Additional At-risk Funding for FY 2021-22 (Sec. 22-54-144, C.R.S.)	<u>91,433,760</u>	<u>0</u>	<u>0</u>	<u>0</u>	
Cash Funds	91,433,760	0	0	0	

Appendix A: Numbers Pages

	FY 2021-22 Actual	FY 2022-23 Actual	FY 2023-24 Appropriation	FY 2024-25 Request	Request vs. Appropriation
SUBTOTAL - (A) Public School Finance	4,842,553,522	5,046,358,043	5,099,592,317	5,364,879,011	5.2%
<i>FTE</i>	<u>18.4</u>	<u>15.9</u>	<u>16.5</u>	<u>15.7</u>	<u>(4.8%)</u>
General Fund	2,996,709,674	4,240,539,972	3,059,230,770	3,134,431,169	2.5%
General Fund Exempt	1,045,914,612	0	1,181,193,165	1,181,193,165	0.0%
Cash Funds	799,929,236	805,818,071	859,168,382	1,049,254,677	22.1%
Reappropriated Funds	0	0	0	0	0.0%
Federal Funds	0	0	0	0	0.0%

(B) Categorical Programs

(1) District Programs Required by Statute

Special Education - Children with Disabilities	<u>406,515,126</u>	<u>492,949,408</u>	<u>497,872,233</u>	<u>513,239,031</u> *	
<i>FTE</i>	63.0	90.8	63.0	63.0	
General Fund	93,572,347	93,572,347	93,572,347	93,572,347	
Cash Funds	126,582,286	206,582,286	247,285,957	262,183,721	
Reappropriated Funds	0	0	191,090	191,090	
Federal Funds	186,360,493	192,794,775	156,822,839	157,291,873	
English Language Proficiency Program	<u>35,421,328</u>	<u>36,082,722</u>	<u>42,577,501</u>	<u>46,644,045</u> *	
<i>FTE</i>	4.6	3.7	4.6	4.6	
General Fund	3,101,598	3,101,191	3,101,598	3,101,598	
Cash Funds	22,156,115	22,156,144	28,192,500	32,242,323	
Federal Funds	10,163,615	10,825,387	11,283,403	11,300,124	
SUBTOTAL -	441,936,454	529,032,130	540,449,734	559,883,076	3.6%
<i>FTE</i>	<u>67.6</u>	<u>94.5</u>	<u>67.6</u>	<u>67.6</u>	<u>(0.0%)</u>
General Fund	96,673,945	96,673,538	96,673,945	96,673,945	0.0%
Cash Funds	148,738,401	228,738,430	275,478,457	294,426,044	6.9%
Reappropriated Funds	0	0	191,090	191,090	0.0%
Federal Funds	196,524,108	203,620,162	168,106,242	168,591,997	0.3%

Appendix A: Numbers Pages

	FY 2021-22 Actual	FY 2022-23 Actual	FY 2023-24 Appropriation	FY 2024-25 Request	Request vs. Appropriation
(2) Other Categorical Programs					
Public School Transportation	<u>63,659,603</u>	<u>64,949,882</u>	<u>68,867,402</u>	<u>72,520,050</u>	*
FTE	2.0	2.4	2.0	2.0	
General Fund	36,922,227	36,922,227	36,922,227	36,922,227	
Cash Funds	26,737,376	27,983,876	31,907,010	35,559,658	
Reappropriated Funds	0	43,779	38,165	38,165	
Transfer to the Department of Higher Education for Distribution of State Assistance for Career and Technical Education					
	<u>28,244,361</u>	<u>28,244,361</u>	<u>30,514,944</u>	<u>32,324,498</u>	*
General Fund	17,792,850	17,792,850	17,792,850	17,792,850	
Cash Funds	10,451,511	10,451,511	12,722,094	14,531,648	
Special Education Programs for Gifted and Talented Children					
	<u>12,906,870</u>	<u>12,983,116</u>	<u>14,677,532</u>	<u>16,247,722</u>	*
FTE	1.5	0.5	1.5	1.5	
General Fund	5,500,000	5,500,000	5,500,000	5,500,000	
Cash Funds	7,406,870	7,483,116	9,177,532	10,747,722	
Expelled and At-risk Student Services Grant Program					
	<u>9,491,869</u>	<u>9,464,367</u>	<u>9,499,542</u>	<u>9,504,726</u>	*
FTE	1.0	3.3	1.0	1.0	
General Fund	5,788,800	5,788,804	5,788,807	5,788,807	
Cash Funds	3,703,069	3,675,563	3,710,735	3,715,919	
Small Attendance Center Aid					
	<u>1,314,250</u>	<u>1,314,250</u>	<u>1,599,991</u>	<u>1,605,338</u>	*
General Fund	787,645	787,645	787,645	787,645	
Cash Funds	526,605	526,605	812,346	817,693	

Appendix A: Numbers Pages

	FY 2021-22 Actual	FY 2022-23 Actual	FY 2023-24 Appropriation	FY 2024-25 Request	Request vs. Appropriation
Comprehensive Health Education	<u>986,599</u>	<u>1,010,222</u>	<u>1,134,284</u>	<u>1,147,569</u> *	
FTE	1.0	1.6	1.0	1.0	
General Fund	300,000	300,000	300,000	300,000	
Cash Funds	686,599	710,222	834,284	847,569	
SUBTOTAL -	116,603,552	117,966,198	126,293,695	133,349,903	5.6%
<i>FTE</i>	<u>5.5</u>	<u>10.5</u>	<u>5.5</u>	<u>5.5</u>	<u>0.0%</u>
General Fund	67,091,522	67,091,526	67,091,529	67,091,529	0.0%
Cash Funds	49,512,030	50,830,893	59,164,001	66,220,209	11.9%
Reappropriated Funds	0	43,779	38,165	38,165	0.0%
SUBTOTAL - (B) Categorical Programs	558,540,006	646,998,328	666,743,429	693,232,979	4.0%
<i>FTE</i>	<u>73.1</u>	<u>105.0</u>	<u>73.1</u>	<u>73.1</u>	<u>(0.0%)</u>
General Fund	163,765,467	163,765,064	163,765,474	163,765,474	0.0%
Cash Funds	198,250,431	279,569,323	334,642,458	360,646,253	7.8%
Reappropriated Funds	0	43,779	229,255	229,255	0.0%
Federal Funds	196,524,108	203,620,162	168,106,242	168,591,997	0.3%

* Indicates line is affected by one or more decision items.

APPENDIX B FOOTNOTES AND INFORMATION REQUESTS

UPDATE ON LONG BILL FOOTNOTES

The General Assembly includes footnotes in the annual Long Bill to: (a) set forth purposes, conditions, or limitations on an item of appropriation; (b) explain assumptions used in determining a specific amount of an appropriation; or (c) express legislative intent relating to any appropriation. Footnotes to the 2023 Long Bill (S.B. 23-214) can be found at the end of each departmental section of the bill at <https://leg.colorado.gov/bills/sb23-214>. The Long Bill footnotes relevant to this document (and as adjusted by S.B. 23-287) are listed below.

- 2 Department of Education, School District Operations, Public School Finance, State Share of Districts' Total Program Funding -- It is the General Assembly's intent that a portion of the amount appropriated for this line item, not to exceed \$270,000 for fiscal year 2023-24, shall be transferred to the Legislative Council for the purpose of funding the biennial cost of living analysis pursuant to Section 22-54-104 (5)(c)(III)(B), C.R.S.

COMMENT: Section 22-54-104 (5) (c) (III) (A), C.R.S., requires the Legislative Council Staff to conduct a biennial study concerning the relative cost of living in each school district. The results of the study are then to be used to adjust each school district's cost of living factor for purposes of calculating per pupil funding for the following two fiscal years. Last conducted in FY 2021-22, statute requires another study in FY 2023-24. The results of the study conducted in FY 2023-24 will impact funding requirements for FY 2024-25 and FY 2025-26.

- 10 Department of Education, School District Operations, Public School Finance, State Share of Districts' Total Program Funding -- Pursuant to section 22-35-108.5 (2)(b)(II), C.R.S., the purpose of this footnote is to specify what portion of this appropriation is intended to be available for the Teacher Recruitment Education and Preparation (TREP) Program for FY 2023-24. It is the General Assembly's intent that the Department of Education be authorized to utilize up to ~~\$2,348,000~~ \$2,396,500 of this appropriation to fund qualified students identified as TREP Program participants. This amount is calculated based on an estimated 250 FTE TREP Program participants funded at a rate of ~~\$8,686~~ \$9,586 per FTE pursuant to section 22-54-204 (4.7), C.R.S.

COMMENT: The Committee added the Teacher Recruitment Education and Preparation (TREP) program to the footnote for FY 2022-23 to designate a cap required by S.B. 21-285 (Supporting Educator Workforce in Colorado). The program, which started in FY 2022-23, allows participating students to concurrently enroll in postsecondary courses for two years following the student's twelfth grade year. The Department can designate students as TREP participants if they are following the teaching career pathway, are on schedule to complete the specified courses by senior year, and are enrolling in the pathways postsecondary courses for the fifth and sixth year, among other requirements.

The bill requires the General Assembly to decide on the number of TREP participants each year through the long Bill process (with this footnote as the mechanism) but the bill limited the number in

FY 2022-23 to no more than 200 students. The General Assembly initially approved the maximum number of slots for FY 2022-23 but then adjusted the limit down to 49 FTE at mid-year (with S.B. 23-136) to reflect the actual usage of slots in the current year. The FY 2023-24 Long Bill includes slots for 250 FTE.

UPDATE ON LONG BILL REQUESTS FOR INFORMATION

The Joint Budget Committee annually submits requests for information to executive departments and the judicial branch via letters to the Governor, other elected officials, and the Chief Justice. Each request is associated with one or more specific Long Bill line item(s), and the requests have been prioritized by the Joint Budget Committee as required by Section 2-3-203 (3), C.R.S. Copies of these letters are included as an Appendix in the annual Appropriations Report (Appendix H in the FY 2023-24 Report):

<https://leg.colorado.gov/sites/default/files/fy23-24apprept.pdf>

The requests for information relevant to this document are listed below.

Requests Affecting Multiple Departments

- 5 All Departments -- The Departments are requested to provide by November 1 of each fiscal year Schedule 9 reports for every annually and continuously appropriated cash fund administered by the Department as part of the standard November 1 budget submission. The Office of State Planning and Budgeting, in coordination with the Office of the State Controller, the Department of the Treasury, and the independent agencies, is further requested to provide by November 1 of each fiscal year a consolidated report that includes the following information for all continuously appropriated cash funds:
- The name of the fund;
 - The statutory citation for the fund;
 - The year the fund was created;
 - The department responsible for administering the fund;
 - The total cash balance as of July 1, 2023;
 - The unobligated cash balance as of July 1, 2023; and
 - The unencumbered cash balance as of July 1, 2023.

COMMENT: There are no continuously appropriated cash funds affecting this portion of the Department of Education.

- 4 Department of Education, Assistance to Public Schools, Categorical Programs; and Department of Higher Education, Division of Occupational Education, Distribution of State Assistance for Career and Technical Education pursuant to Section 23-8-102, C.R.S. -- The Department of Education is requested to work with the Department of Higher Education and to provide to the Joint Budget Committee information concerning the distribution of state funds available for each categorical program, excluding grant programs. The information for special education programs for children with disabilities, English language proficiency programs, public school transportation, career and technical education, and small attendance center aid is requested to include the following: (a) a comparison of the state funding distributed to each district or administrative unit for each program in fiscal year 2022-23 and the maximum allowable distribution pursuant to state law and/or State Board of Education rule; and (b) a comparison of the state and federal funding distributed to each district or administrative unit for each program in fiscal year 2021-22 and actual district expenditures for

each program in fiscal year 2021-22. The information for special education programs for gifted and talented children is requested to include a comparison of the state funding distributed to each district or administrative unit for each program in fiscal year 2021-22 and actual district expenditures in fiscal year 2021-22.

COMMENT: The Department provided the requested information, which is summarized below.

Background Information: Section 17 of Article IX of the Colorado Constitution requires the General Assembly to increase total state funding for all categorical programs (in aggregate) 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. The General Assembly determines on an annual basis how to finance this increase and how to allocate the required increase among the various categorical programs. The annual Long Bill includes at least the minimum required increase in state funding for categorical programs. Thus, the Joint Budget Committee makes a recommendation to the General Assembly each year concerning the allocation of these funds. This request for information is intended to provide the Committee with data to inform this decision.

Statutory Reimbursement Formula: State funding is provided through a statutory formula for five categorical programs. The following table provides a comparison of the state funding available and the maximum statutory reimbursement for each of these programs for FY 2022-23. Based on this comparison, state funding for English language proficiency was the least adequate in FY 2022-23, covering 22.4 percent of the maximum appropriation for that year. However, this amount excludes approximately \$45.0 million provided through the English language learners (ELL) factor in the formula.

STAFF BUDGET BRIEFING

MAXIMUM AMOUNT OF STATE FUNDS DISTRICTS WERE STATUTORILY ELIGIBLE TO RECEIVE FOR FY 2022-23					
Long Bill Line Item	Description of What Determines Maximum State Funding	Total State Funds	Maximum State Funding	Percent of Maximum Covered by State Funds	Estimated Increase Required to Fund Statutory maximum
District Programs Required by Statute					
Special Education - Children With Disabilities ^a	Driven by the number of children requiring special education services, characteristics of the children eligible for such services, and the cost of such services	\$300,518,566	\$334,306,500	89.9%	\$33,787,934
English Language Proficiency Program ^b	Driven by the number of eligible students and statewide average per pupil operating revenue	25,257,335	112,955,663	22.4%	87,698,328
Other Categorical Programs (with specified statutory reimbursement levels)					
Public School Transportation	Driven by total miles traveled and total transportation-related costs (excluding capital outlay expenses)	66,864,800	109,279,153	61.2%	42,414,352
Colorado Vocational Distributions Act	Driven by the number of students participating in vocational education programs and the costs of such services per FTE in relation to each districts per pupil operating revenue	28,644,361	33,306,946	86.0%	4,662,585
Small Attendance Center Aid	Driven by the number of eligible schools, such schools' enrollment, and eligible districts' per pupil funding	1,314,250	1,599,991	82.1%	285,741
TOTAL					\$168,848,939

^a The estimated increase to fund the statutory maximum for special education for children with disabilities in FY 2022-23 is based on the following: \$189,533,750 for Tier A (\$1,750 for each student with disabilities); \$143,888,000 for Tier B (assuming districts received \$6,000 per student for 100 percent of the 23,898 students with specified disabilities, rather than for 72.0 percent for these students); \$4,000,000 for high cost grants; and \$500,000 for "educational orphans." Staff has not attempted to estimate the costs of "fully funding" the high cost grant program.

^b The State funds provided for the English Language Proficiency Program in FY 2021-22 only reflect categorical program funding amounts. They do *not* include amounts in the school finance formula associated with the English language learners (ELL) factor added to the formula through S.B. 21-268 (School Finance).

Percent of Actual Expenditures Covered by State and Federal Funds: The preceding table compares available state funding to the amount of state funding that districts are eligible to receive pursuant to state statute. However, these statutory formulas are generally designed to cover only a portion of districts' costs. One should also consider a comparison of actual district expenditures on categorical programs to the amount of state and federal funding available for categorical programs.

The following table provides a comparison of actual district expenditures for categorical programs to available state and federal funding. Based on the availability and relevance of district expenditure data, the table excludes data for three programs: Expelled and At-risk Student Services Grant Program, Small Attendance Center Aid, and Comprehensive Health Education. The data are derived from the Department's response to this request for information.

This analysis indicates that districts spent \$1.3 billion in FY 2021-22 on five categorical programs over and above state and federal funding made available for these programs. Districts spent the largest portion of their total program funding to provide special education services to children with disabilities (\$796.1 million), followed by English language proficiency programs (\$216.4 million) and public school transportation services (\$194.8 million). In percentage terms, state and federal revenues covered the lowest portion of actual expenditures for transportation (24.6 percent), followed closely by English language proficiency programs (25.9 percent) and career and technical education (26.6 percent).

STAFF BUDGET BRIEFING

CATEGORICAL PROGRAM REVENUES AND EXPENDITURES: FY 2021-22						
Long Bill Line Item	(a) State Funds	(b) Federal Funds	(c) = (a) + (b) Total State and Federal Funds	(d) Total District Expenditures	(e) = (c)/(d) State/Federal Share of Expenditures	(f) = (d) - (c) Local Share of Expenditures
District Programs Required by Statute						
Special Education - Children with Disabilities ^a	\$261,860,118	\$160,427,989	\$422,288,108	\$1,218,403,808	34.7%	\$796,115,701
English Language Proficiency Program ^b	66,104,752	9,566,793	75,671,545	292,088,445	25.9%	216,416,900
Other Categorical Programs						
Public School Transportation	63,390,893	0	63,390,893	258,173,127	24.6%	194,782,233
Career and Technical Education	28,244,361	6,820,588	35,064,949	131,764,984	26.6%	96,700,035
Special Education - Gifted and Talented Children	12,386,862	0	12,386,862	38,936,186	31.8%	26,549,324
TOTAL	\$431,986,986	\$176,815,371	\$608,802,357	\$1,939,366,551		\$1,330,564,193

^a State funding includes Public School Finance Act funding for preschool children with disabilities.

^b State funding includes funds received through the English Language Learner factor in the total program calculation (net of the budget stabilization factor).

APPENDIX C

DEPARTMENT ANNUAL PERFORMANCE REPORT

Pursuant to Section 2-7-205 (1)(b), C.R.S., the Department of Education is required to publish an **Annual Performance Report** for the *previous fiscal year* by November 1 of each year. This report is to include a summary of the Department's performance plan and most recent performance evaluation for the designated fiscal year. In addition, pursuant to Section 2-7-204 (3)(a)(I), C.R.S., the Department is required to develop a **Performance Plan** and submit the plan for the *current fiscal year* to the Joint Budget Committee and appropriate Joint Committee of Reference by July 1 of each year.

For consideration by the Joint Budget Committee in prioritizing the Department's FY 2024-25 budget request, the FY 2022-23 Annual Report and FY 2023-24 Performance Plan can be found at the following link:

<https://www.colorado.gov/pacific/performancemanagement/department-performance-plans>