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Legislative
Council
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MEMORANDUM

May 2, 2008

TO: Members of the General Assembly
FROM: Deb Godshall, Assistant Director, 303-866-3521
SUBJECT: Financing of Public Schools for the 2008-09 Budget Year

State funding for K-12 public schools is a conglomeration of money allocated through the funding formula in the school finance act, categorical programs, and a variety of other specific-purpose programs. This memorandum summarizes the annual school finance bill, House Bill 08-1388. Highlights of the financial components of the bill follow, and a printout of estimated district-by-district funding is attached.

- ✍ The **school finance act** is expected to provide \$5.36 billion to school districts in the 2008-09 budget year. The state provides about 63.3 percent of this amount, or \$3.39 billion, while local property and specific ownership taxes provide the remaining \$1.97 billion.
- ✍ **School district funding** under the school finance act is expected to increase \$303.7 million, an increase of 6 percent. About four-fifths of the amount, or \$253.5 million, comes from state sources. The remaining \$50.3 million comes from local property and specific ownership taxes.
- ✍ The **General Fund increase** for school finance, sometimes called the "maintenance of effort" or MOE, is about 6 percent, or \$166.5 million.¹ Amendment 23 requires the General Fund appropriation for school finance to increase by at least 5 percent when Colorado personal income grows by 4.5 percent or more.
- ✍ The increase in the **statewide base** per pupil funding amount is 3.6 percent, four-tenths of a percentage point higher than the Amendment 23 requirement of inflation (2.2 percent) plus one percentage point. The increase in the base

¹ The percentage increase in the MOE includes the General Fund appropriation in House Bill 08-1335, which creates the BEST capital construction program for school districts and appropriates \$20 million from the General Fund for school finance to replace revenue that previously supported school finance but now supports the BEST program.

above the minimum provides about \$20 million in additional funding for school districts.

- ✎ **Statewide average per pupil funding** is estimated to be \$6,904 next year, an increase of \$243, or 3.6 percent, over the current year's level.
- ✎ House Bill 08-1388 provides an estimated \$39.1 million for **full-day kindergarten programs**, including \$7.4 million to continue funding the full-day kindergarten slots that existed under the Colorado Preschool Program and \$31.7 million for new, state-funded programs. About 12,500 children are expected to be funded through the combination of the two programs.
- ✎ In addition to funding students in full-day kindergarten programs, \$34.5 million is appropriated to provide money to school districts for **capital facilities associated with full-day kindergarten programs**.
- ✎ The number of children who may participate in the **Colorado Preschool Program** is expanded by 2,754 through House Bill 08-1388. The bill increases the number of preschool slots by 300 and reallocates existing slots from full-day kindergarten to preschool. When the increase in slots authorized under current law is taken into account, preschool slots increase by 6,254 in 2008-09, for a total of 20,160.
- ✎ **Declining enrollment districts** are provided with about \$9.8 million in increased funding through the expansion of the pupil-count averaging formula to five years. In the current budget year, 122 districts receive enhanced funding through a higher pupil count under the averaging formula. House Bill 08-1388 also appropriates \$200,000 for a study of the impact of declining enrollment on school districts.
- ✎ Categorical funding for **special education** is increased for two purposes: \$2 million is added to the current appropriation of \$2 million for high-cost grants for services for children with disabilities, and the appropriation for gifted and talented programs is increased \$200,000.
- ✎ Funding for **charter school facilities** is increased \$5 million to a total of \$10 million. Of the additional amount, \$135,000 is earmarked for a charter school that primarily serves pupils who are deaf or blind.
- ✎ House Bill 08-1388 creates a grant program to provide money to school districts that seek to develop **alternative teacher compensation plans** and appropriates \$1 million to be distributed in grants.
- ✎ Funding for the approximately 2,000 **students who are placed in facilities** like residential child care facilities or community centers is increased about \$5.2 million to pay for year-round educational services. Most of the

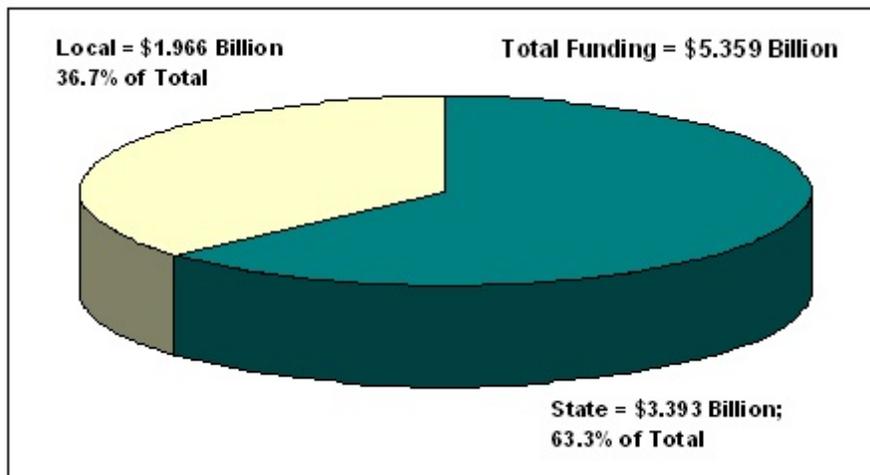
appropriation increase for this funding is contained in the Long Bill. School districts who counted these students in FY 2007-08 are slated to receive just under \$600,000 in FY 2008-09 to offset a revenue loss.

- ✎ House Bill 08-1388 appropriates \$300,000 for the **STEM** after-school education pilot program, which is housed in the Office of Economic Development. This program coordinates and provides grants for educational activities and competitions focused on science, technology, engineering, and mathematics.

FUNDING FOR DISTRICTS UNDER THE SCHOOL FINANCE ACT

The Public School Finance Act of 1994 is the mechanism through which school districts receive state aid and property taxes for operating purposes. In the 2008-09 budget year, the act is expected to provide \$5.36 billion to school districts. The state provides about 63.3 percent of this amount; the remaining 36.7 percent comes from local sources.

**Figure 1. Sources of Money for the School Finance Act
Fiscal Year 2008-09**



The \$5.36 billion in total school finance funding is an increase of 6 percent, or \$303.7 million, over the current budget year.² Some of this increase is attributable to growth in the number of pupils funded. The pupil count grows both from an increase in the number of pupils attending public schools and from law changes that expand the count, including additional weighting of kindergarten pupils, higher pupil counts for declining enrollment districts, and new preschool pupils. About 17,339 more pupils are expected to be funded next year, bringing the total to 776,167, an increase of about 2.3 percent over the current year. A second contributor to the \$303.7 million is the increase in per pupil

² For purposes of calculating year-to-year changes in funding, the dollar amounts in FY 2007-08 are adjusted to exclude funding for students placed in facilities, thereby providing an "apples-to-apples" comparison.

funding. House Bill 08-1388 increases the statewide base per pupil funding amount by 3.6 percent, somewhat more than the 3.2 percent of inflation plus one percentage point required by Amendment 23. Finally, the \$303.7 million includes the second year of the phase up to increase funding for the lowest-funded school districts and implementation of the cost-of-living study.

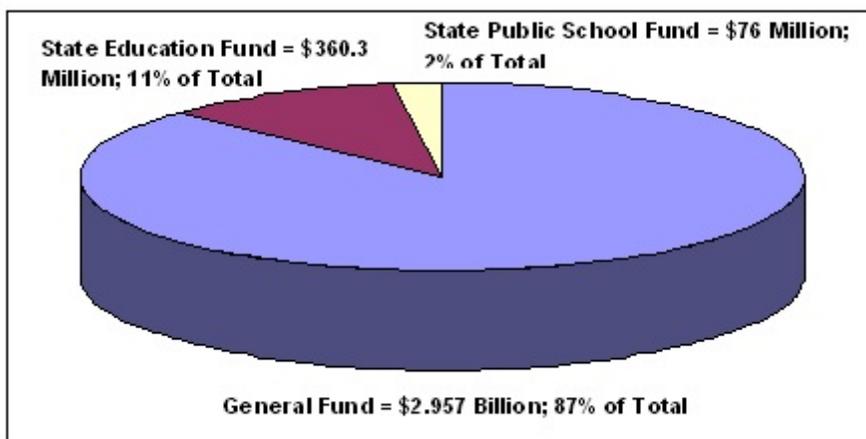
The increase in school district funding comes from a combination of state money and local taxes. Local taxes consist of property and specific ownership taxes. State aid provides the difference between a district's funding as allocated through the school finance act and the amount raised through local taxes. In the 2008-09 budget year, about four-fifths of the \$303.7 million increase in school district funding is provided by the state; the remaining one-fifth comes from local taxes. Figure 2 illustrates the components of the \$303.7 million increase in school district funding and the sources of revenue for the increase.

Figure 2. Components of School Finance Act Funding Increase in FY 2008-09

Component	Total Funding Increase	State Aid	Local Taxes
Current Law: Funded in Long Bill			
Pupil count increase of 10,665 (includes 3,500 new preschool slots)	\$68,396,667		
Inflation plus one percent	164,374,129		
Increase in minimum per pupil funding	6,388,069		
Cost-of-living study	1,471,892		
<i>Subtotal: Current Law</i>	240,630,757	191,384,113	49,246,644
House Bill 08-1388			
Increase weighting of kindergarten pupils to provide funding for full-day kindergarten	32,324,750	31,719,892	604,858
Increase statewide base by an additional \$19.72 over Amendment 23 requirement	20,055,586	19,967,016	88,570
Expand averaging for declining enrollment districts to 5 years	9,816,229	9,226,000	590,229
Add 300 preschool slots	987,000	987,000	
<i>Subtotal: House Bill 08-1388</i>	63,183,565	61,899,908	1,283,657
Total FY 2008-09 Increase	\$303,814,322	\$253,284,021	\$50,530,301

State aid for schools is primarily paid from the state General Fund. The General Assembly appropriates money for school finance from three funds: the General Fund, the State Education Fund, and the State Public School Fund. The General Fund is the primary source of revenue for state aid to schools, accounting for 87 percent of the \$3.93 billion in state aid for school finance in the 2008-09 budget year. The State Education Fund provides the next largest share at 11 percent, while the State Public School Fund contributes the remaining 2 percent. The State Public School Fund consists of a portion of the money earned on state school lands and federal mineral leases. Figure 3 illustrates the proportions and amounts of money contributed by the three funds.

Figure 3. Sources of Revenue for FY 2008-09 School Finance Appropriation



Per Pupil Funding Is Increased by 3.6 Percent

Amendment 23 requires the General Assembly to increase the statewide base per pupil funding amount by at least inflation plus one percentage point for the 2008-09 budget year. House Bill 08-1388 exceeds the minimum requirement by providing a 3.6 percent increase in the base. Inflation for calendar year 2007 was 2.2 percent, making the minimum requirement a 3.2 percent increase. House Bill 08-1388 increases the statewide base to \$5,270.13, an increase of \$182.52 over the current year's amount. The statewide base is the dollar amount from which each school district's funding is derived; it is the amount to which a district's size, cost-of-living, and personnel costs factors are applied to determine its per pupil funding. The increase in the statewide base is expected to provide \$184.4 million to school districts next year. Of this amount, the General Assembly has stated its intent that the amount above the Amendment 23 requirement—about \$20 million—be split one-half for attracting and retaining teachers and preserving the amount of money allocated to educating students and one-half for providing assistance to first and second grade teachers.

An increase in the statewide base automatically triggers an increase in *online per pupil funding*. The online per pupil funding amount is the amount provided to districts for students enrolled in multi-district online programs. It increases each year by the same percentage increase in the statewide base. The increase in the statewide base of 3.6 percent

increases online per pupil funding from \$6,135 in the current budget year to \$6,355 in 2008-09.

Funding Is Provided for Some Full-day Kindergarten

For purposes of school district funding under the school finance act, all kindergarten pupils are counted as half-time. About 41 percent of kindergarten pupils statewide attend full-day kindergarten programs, however. About 10 percent of pupils attending full-day programs do so with state funding through the full-day kindergarten component of the Colorado Preschool Program. Funding for the remaining pupils comes from school district sources: tuition, Title I money, voter-approved local property taxes, scholarships, or district general fund dollars.

House Bill 08-1388 changes how kindergarten pupils are counted in the school finance act to provide additional funding for full-day kindergarten programs. District pupil counts will increase by an additional .08 for each kindergarten pupil enrolled, beginning with the October 2008 pupil count. This change in the pupil count is expected to provide \$32.3 million more in revenue to school districts, although the actual amount depends on the kindergarten enrollment in the fall. More information on the provisions of House Bill 08-1388 relating to full-day kindergarten can be found on page ?.

Declining Enrollment Districts Receive Additional Funding

House Bill 08-1388 expands the pupil count averaging that is available to school districts. Currently, a school district's count is the greater of the current year's count, the average of the current year and preceding year, the average of the current year and two preceding years, or the average of the current year and three preceding years. The bill adds an additional preceding year, for what is called five-year averaging. Averaging the count is used when it results in a higher count than the actual count for the school year. Because more pupils are "counted," more funding is provided than would otherwise be the case. Averaging is used when a district's pupil enrollment is in a steady decline or, in some cases, when a district's count is up and down over several years. In FY 2007-08, about 5,700 additional pupils were funded in 122 districts from pupil count averaging. In 2008-09, expanding the averaging is expected to fund an additional 1,500 pupils and provide \$9.8 million to school districts.

House Bill 08-1388 also appropriates \$200,000 for a wide-ranging study of funding issues in declining enrollment school districts, the impact of declining enrollment on students that remain in district, and recommendations for possible remedies. The Department of Education is required to contract with a private entity for the study and to provide a report to the House and Senate Education committees and the Joint Budget Committee by March 15, 2009.

Colorado Preschool Program Slots Are Increased

The school finance act is the funding mechanism for children who attend preschool through the Colorado Preschool Program. House Bill 08-1388 increases the number of children funded through this program in 2008-09 by 300, for an estimated cost of \$987,000. With this increase, the number of preschoolers funded through this program totals 20,160. More information on the provisions of House Bill 08-1388 relating to the Colorado Preschool Program can be found on page ?.

The Second Year of the Phase Up in Minimum Per Pupil Funding Occurs in 2008-09

The school finance act contains a minimum or "floor" level of per pupil funding. It applies to districts whose funding under the basic formula would be lower than the established minimum. The General Assembly increased the minimum in Senate Bill 07-199 and provided for a two-year phase in to the new amount. In 2008-09, the minimum increases from 94.3 percent to 95 percent of a specified statewide average per pupil funding amount. In FY 2007-08, eleven districts are funded at the minimum per pupil dollar amount. In 2008-09, fourteen districts, accounting for about 18 percent of the funded pupil count, are expected to be at the minimum per pupil funding level of \$6,550. The increase to 95 percent of the statewide average drives additional funding of about \$6.4 million, which is included in the Long Bill appropriation for school finance.

The Results of a New Cost-of-Living Study Are Implemented in 2008-09

Every two years a cost-of-living study of school districts is conducted, and the factors in the school finance act are adjusted as required by law. For FY 2008-09, state law requires an increase in the cost-of-living factors of 96 school district, representing about 40 percent of pupils. The increase in cost-of-living factors provides an additional \$1.5 million for these districts, which is included in the Long Bill appropriation for school finance. The appropriation provides, on average, about \$5 per pupil. State law prohibits a decrease in a district's cost-of-living factor.

EARLY CHILDHOOD EDUCATION: PRESCHOOL AND FULL-DAY KINDERGARTEN PROGRAMS

For FY 2008-09, state funding is provided for an additional ? children to attend preschool programs or full-day kindergarten. In addition, House Bill 08-1388 creates a grant program to provide facilities for full-day kindergarten and appropriates \$35 million from the State Education Fund for the program in FY 2008-09.

Expansion of Preschool and Full-day Kindergarten

Table 1. House Bill 08-1388 State Appropriations

		Source*
Per Pupil Funding Distributions to School Districts		
Statewide Base Increase Greater than the Amendment 23 Requirement	\$19,967,016	SEF
Addition of 5th Year for Pupil Count Averaging	\$9,226,000	SEF
Preschool and Kindergarten Programs		
Funding for Full-day Kindergarten for an Estimated 10,530 Pupils	\$31,719,892	SEF
Continuation of District Funding for 2,454 Full-Day Kindergarten Pupils under the Colorado Preschool Program	\$7,356,409	SEF
Increase Preschool Slots in Colorado Preschool Program by 300	\$987,000	SEF
Facility Grants for Full-day Kindergarten	\$34,500,000	SEF
Categorical Program Funding		
Increase Funding for Special Education High-cost Grants	\$2,000,000	SEF
Increase Funding for Gifted and Talented Programs	\$200,000	SEF
Grant Programs and Other Distributions to School Districts		
Grants for Alternative Teacher Compensation Plans	\$1,000,000	SEF
STEM After-School Education Pilot Grant Program	\$300,000	SEF
Charter Schools		
Increase Funding for Charter School Capital	\$5,000,000	SEF
Pupils Placed in Facilities		
Provide Funding for Year-Round Educational Services; Repeal Grant Program for Summer School Programs (Net Increase)	\$341,280	SEF
Replace School District Revenue Loss from Pupils in Facilities	\$587,504	SEF
Other		
Declining Enrollment Study	\$200,000	SEF
Administrative Costs at the Department of Education	\$430,616	SEF
Administrative Costs for the Department of Human Services (Preschool Licensing)	\$85,092	GF
Total	\$113,900,809	
State Education Fund	\$113,815,717	
General Fund	\$85,092	