

Joint Budget Committee



H.B. 24-1448 Sustainability Plan

FY 2025-26

JBC Working Document - Subject to Change
Staff Recommendation Does Not Represent Committee Decision

Prepared by:
Andrea Uhl JBC Staff
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Joint Budget Committee Staff
200 E. 14th Avenue, 3rd Floor • Denver • Colorado • 80203
Telephone: (303) 866-2061 • TDD: (303) 866-3472
<https://leg.colorado.gov/agencies/joint-budget-committee>

Contents

- Overview 1
- Findings and Recommendations..... 1
- Discussion..... 2
- Scenarios 3
 - Scenario 1: Old Formula (Long Bill Recommendation) 4
 - Scenario 2: H.B. 24-1448 Current Law Implementation..... 5
 - Scenario 3: Governor’s Revised R1/BA1 6
 - Scenario 4: 3-year Averaging, 7-year Phase-in 7

Overview

H.B. 24-1448 (New Public School Finance Formula) requires the Joint Budget Committee to monitor the fiscal impact of new formula during the phase-in period and develop a sustainability plan that makes finding and recommendations on how to fully fund total program determinations calculated pursuant to the new formula.

Section 22-54-103.3 (4) states:

“For the 2024-25 budget year through the 2029-30 budget year, the joint budget committee shall monitor the fiscal impact of the district total program determinations pursuant to this section and the fiscal impact of the transition to the total program formula pursuant to section 22-54-103.5. At a minimum, the joint budget committee shall consider immediate and forecasted economic conditions, the impact or trend of the statewide total local share of total program funding, the impact or trend of the state education fund, and any other data-driven considerations necessary to ensure the sustainable transition to and implementation of a new total program formula. The joint budget committee and the general assembly may take action necessary to ensure the sustainable transition to and implementation of a new total program formula. On or after January 1, 2025, when the department of education makes mid-year adjustments, the joint budget committee shall develop a sustainability plan that makes findings and recommendations regarding how the general assembly can fully fund total program determinations pursuant to sections 22-54-103.3 and 22-54-103.5. On or after January 1, 2026, and on or after January 1 each year thereafter, when the department of education makes mid-year adjustments, the joint budget committee shall review the sustainability plan and update it as necessary.”

Findings and Recommendations

Staff examined four scenarios for this document in order to grasp the magnitude of General Fund increases required under each while keeping the balance of the State Education Fund (SEF) at or above \$100.0 million. Staff finds that:

- Continuing to fund total program costs through the old 1994 formula (Scenario 1) is the most affordable scenario examined in this document.
- Implementation of H.B. 24-1448 as written (Scenario 2) is not realistic or achievable given the current budget environment.
- The Governor’s proposal (Scenario 3) saves \$164.3 million in state share costs compared to Scenario 2, but still requires General Fund increases ranging from 3.4 to 4.4 percent. It is staff’s opinion that increases of this magnitude could be achievable if the State’s economic outlook does not worsen compared to the December 2024 forecasts.
- Scenario 4 models the new formula using 3-year averaging with a seven-year phase in and requires General Fund increases ranging from 3.7 to 3.9 percent. In the event the General Assembly does not wish to eliminate averaging immediately, staff suggests exploring options

to phase out student averaging while phasing in the new formula as a middle ground between Scenarios 3 and 4.

- There are many other programs and expenditures drawing on the State Education Fund. Reductions in these areas would leave more SEF available for total program costs, thereby reducing the size of increases to the General Fund appropriation for the state share of districts' total program funding.
- Implementation of a new school finance formula must be considered in the context of the overall budget, which is already facing a structural deficit and is impacted by a plethora of uncertain variables.

Staff recommends that the Joint Budget Committee direct the Education Committees, sponsors of the School Finance Act, and other involved parties to bring forth a proposal that generates cost savings similar to or greater than the Governor's proposal (Scenario 3). This could include a combination of changes to student averaging, the hold harmless calculation, the phase-in timeline, and other categories of expenditures that draw on the State Education Fund.

Discussion

Historically, the General Assembly has increased the General Fund contribution for the State Share of Districts' Total Program Fund each year, doing so in 10 of the last 13 years. The General Fund contribution grew by an average of 4.2 percent from FY 2012-13 to FY 2022-23. The General Fund contribution has been held constant since FY 2022-23 due to the historically high balance in the State Education Fund and large increases in local share.

The General Fund appropriation will have to grow significantly in FY 2025-26 and future years under any of the scenarios in this document in order to keep the balance of the State Education Fund positive over the four-year modeling period. The scenarios examined here all target a \$100.0 million ending SEF balance in FY 2028-29, which is the lowest balance staff would recommend targeting. While there is no conclusive threshold for defining a "sustainable transition to and implementation of" the new school finance formula, staff suggests that General Fund increases above 4.2 percent are likely unsustainable. The Governor's budget request (Scenario 2) includes a \$150.0 million, or 3.5 percent, General Fund increase for total program costs in FY 2025-26. Staff's Long Bill recommendation for total program costs calculated under the old formula also includes a \$150.0 million General Fund increase, as shown in Scenario 1.

There is no safe assumption about how large of an annual General Fund increase for school finance the budget can absorb in the future. A February 12, 2025 memo¹ from the JBC Staff Director investigated the State's budget outlook through FY 2023-30 and drew the following conclusion:

"The budget appears to be on an unsustainable path. Without significant ongoing actions to reduce obligations and/or make additional revenues available, the State would exhaust

¹ <https://leg.colorado.gov/sites/default/files/shortfall-02-20-25-revised.pdf>

the 15.0 percent General Fund reserve before FY 2029-30, even without a recession. The recession scenarios only accelerate the depletion of the reserve. Sustaining a viable reserve will require structural change to revenues and/or obligations.”

While it is true that the General Assembly has the ability to prioritize implementation of the new school finance formula by cutting or limiting expenditures in other areas of the budget, the Joint Budget Committee is already considering extremely difficult and complicated budget balancing options to correct the structural budget deficit.

Scenarios

The following scenarios were prepared in partnership with Legislative Council Staff using data from the LCS December 2024 economic and revenue forecast. All four scenarios incorporate the JBC staff recommendation for categorical program expenditures and assume \$175.4 million in other SEF expenditures throughout the Department of Education for FY 2025-26. Please note that changes to several large items could impact the \$175.4 million figure:

- **CSI Mill Levy Equalization:** The model includes \$27.4 million SEF for this purpose in FY 2025-26. The Department of Education figure setting document for programs other than school finance and categoricals dated March 4, 2025, discusses the costs of this program. The model assumes the cost remains uncapped and climbs at 10.0 percent annually.
- **Healthy School Meals for All (HSMA) school meal reimbursements:** Current law only allows use of the SEF for HSMA in FY 2024-25; the current year cost is estimated at \$35.2 million. The model does *not* include funding for HSMA in FY 2025-26.
- **Mill Levy Override Match funding:** H.B. 24-1448 created a working group that met over the 2024 legislative interim to make recommendations on how this program could be modified to provide a more equitable funding distribution and greater access for eligible districts. It is unclear to staff at this time what the General Assembly’s appetite for funding this program is; therefore, it is not included in the model for FY 2025-26 and later.

Other major components that impact these scenarios include:

- **Changes to the ASCENT program:** The FY 2025-26 cost of ASCENT is estimated at \$20.8 million and is included in the total program figures. The Department of Education figure setting document for programs other than school finance and categoricals dated March 4, 2025, includes a recommendation to eliminate ASCENT and set aside \$5.0 to \$10.0 million of the savings as a placeholder for other legislation to restructure the postsecondary workforce incentive system for school districts.
- **Building Excellent Schools Today (BEST) cap savings:** The Committee approved staff recommendation to cap total annual revenue to the BEST program at \$150.0 million, which is estimated to increase funding available for school finance through the State Public School Fund by \$50.8 million in FY 2025-26 and \$30.0 million in later years. These amounts are incorporated into the State Public School Fund appropriations in this model, which decreases the amount of General Fund and/or State Education Fund required for total program costs.

- **Categorical Programs** – The FY 2025-26 figure is based on the staff figure setting recommendation to appropriate \$10.8 million in excess of the required Amendment 23 inflationary increase in order to fully fund special education. Estimates for later years are based on LCS inflation estimates as of the December 2024 forecast.

Scenario 1: Old Formula (Long Bill Recommendation)

The staff figure setting recommendation for the Long Bill assumes that a condition to pause implementation of the new formula will be met, and total program costs should therefore be calculated under the old 1994 school finance formula. Staff is recommending a \$150.0 million General Fund increase for the state share, consistent with the Governor’s budget request. If the old formula were to remain in effect over the timeframe in the model, a portion of the General Fund increase could be shifted to later years to even out the annual General Fund increase. **This scenario is the most affordable of the four examined in this document and could likely be sustained barring a severe economic downturn.**

Scenario 1: Old Formula					
Item	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	FY 2028-29
Total Program	\$9,773.2	\$9,953.6	\$10,142.6	\$10,328.7	\$10,535.5
<i>Change in Total Program</i>	<i>\$599.1</i>	<i>\$180.5</i>	<i>\$189.0</i>	<i>\$186.0</i>	<i>\$206.8</i>
Funded Pupil Count	853,384	850,665	847,324	845,201	844,635
<i>% chg in Funded Pupil Count</i>	<i>-0.7%</i>	<i>-0.3%</i>	<i>-0.4%</i>	<i>-0.3%</i>	<i>-0.1%</i>
Local Share	\$4,186.7	\$4,561.7	\$4,519.6	\$4,687.2	\$4,741.2
State Share	\$5,586.4	\$5,392.0	\$5,623.0	\$5,641.5	\$5,794.3
State Public School Fund	74.4	112.1	106.3	106.7	108.2
State Education Fund (SEF)	1,273.3	891.2	1,009.6	905.9	931.4
General Fund	4,238.7	4,388.7	4,507.2	4,628.9	4,754.7
<i>General Fund increase</i>	<i>0.0</i>	<i>150.0</i>	<i>118.5</i>	<i>121.7</i>	<i>125.8</i>
<i>General Fund % increase</i>	<i>0.0%</i>	<i>3.5%</i>	<i>2.7%</i>	<i>2.7%</i>	<i>2.7%</i>

SEF Beginning balance	\$1,674.1	\$1,080.4	\$833.8	\$493.1	\$288.6
SEF Deposits					
Income taxes	\$1,089.4	\$1,171.4	\$1,224.2	\$1,280.7	\$1,339.9
Other transfers	146.0	0.0	0.0	0.0	0.0
Interest earnings	50.6	49.7	37.4	29.5	28.2
Total deposits	1,286.0	1,221.1	1,261.6	1,310.2	1,368.0
SEF expenditures					
State share of total program	\$1,273.3	\$891.2	\$1,009.6	\$905.9	\$931.4
Categorical programs	377.7	401.0	414.0	426.1	438.5
Other expenditures	228.8	175.4	178.9	182.6	186.7
Total expenditures	\$1,879.8	\$1,467.6	\$1,602.4	\$1,514.7	\$1,556.6
SEF Ending Balance	\$1,080.4	\$833.8	\$493.1	\$288.6	\$100.0

Scenario 2: H.B. 24-1448 Current Law Implementation

This scenario models the implementation of H.B. 24-1448 as written, if no condition to pause the formula is met. The required General Fund increases range from 3.8 to 6.2 percent in order to maintain a \$100.0 million SEF balance at the end of FY 2028-29. **In staff's opinion, increases of this magnitude are not realistic or achievable given the current budget environment.**

Scenario 2: H.B. 24-1448 Current Law Implementation					
Item	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	FY 2028-29
Total Program	\$9,773.2	\$10,051.8	\$10,321.9	\$10,601.0	\$10,900.5
<i>Change in Total Program</i>	<i>\$599.1</i>	<i>\$278.7</i>	<i>\$270.0</i>	<i>\$279.2</i>	<i>\$299.5</i>
Funded Pupil Count	853,384	846,761	843,340	842,414	841,536
<i>% chg in Funded Pupil Count</i>	<i>-0.7%</i>	<i>-0.8%</i>	<i>-0.4%</i>	<i>-0.1%</i>	<i>-0.1%</i>
Local Share	\$4,186.7	\$4,563.9	\$4,522.2	\$4,694.3	\$4,751.0
State Share	<u>\$5,586.4</u>	<u>\$5,487.9</u>	<u>\$5,799.7</u>	<u>\$5,906.7</u>	<u>\$6,149.5</u>
State Public School Fund	74.4	112.1	106.3	106.7	108.2
State Education Fund (SEF)	1,273.3	975.0	1,018.8	901.5	842.8
General Fund	4,238.7	4,400.8	4,674.6	4,898.6	5,198.5
<i>General Fund increase</i>	<i>0.0</i>	<i>162.1</i>	<i>273.8</i>	<i>224.0</i>	<i>299.9</i>
<i>General Fund % increase</i>	<i>0.0%</i>	<i>3.8%</i>	<i>6.2%</i>	<i>4.8%</i>	<i>6.1%</i>

SEF Beginning balance	\$1,674.1	\$1,080.4	\$750.0	\$400.0	\$200.0
SEF Deposits					
Income taxes	\$1,089.4	\$1,171.4	\$1,224.2	\$1,280.7	\$1,339.9
Other transfers	146.0	0.0	0.0	0.0	0.0
Interest earnings	50.6	49.7	37.4	29.5	28.2
Total deposits	1,286.0	1,221.1	1,261.6	1,310.2	1,368.0
SEF expenditures					
State share of total program	\$1,273.3	\$975.0	\$1,018.8	\$901.5	\$842.8
Categorical programs	377.7	401.0	414.0	426.1	438.5
Other expenditures	228.8	175.4	178.9	182.6	186.7
Total expenditures	\$1,879.8	\$1,551.4	\$1,611.6	\$1,510.2	\$1,468.0
SEF Ending Balance	\$1,080.4	\$750.0	\$400.0	\$200.0	\$100.0

Scenario 3: Governor’s Revised R1/BA1

This scenario demonstrates the Governor’s proposal under Legislative Council Staff economic assumptions from the December 2024 economic and revenue forecast. This proposal would implement the new formula over a six-year phase in period, with 18 percent implemented in the first year. This scenario also eliminates student averaging in the new formula and the old formula for the purpose of the hold harmless calculation, and eliminates the extra 0.5 percent increase in the hold harmless calculation. According to estimates prepared by Legislative Council Staff, the Governor’s proposal would **decrease total program costs by \$167.5 million in FY 2025-26 compared to the implementation of H.B. 24-1448 as written (Scenario 3)**. Of this amount, \$164.3 million is savings to the state share of total program funding. The required General Fund increases in this scenario range from 3.4 to 4.4 percent. **It is staff’s opinion that increases of this magnitude could be achievable if the State’s economic outlook does not worsen compared to the December 2024 forecasts.**

Scenario 3: Governor's Revised R1/BA1					
Item	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	FY 2028-29
Total Program	\$9,773.2	\$9,884.3	\$10,155.8	\$10,470.5	\$10,751.4
<i>Change in Total Program</i>	<i>\$599.1</i>	<i>\$111.2</i>	<i>\$271.5</i>	<i>\$314.7</i>	<i>\$280.9</i>
Funded Pupil Count	853,384	834,955	833,242	832,275	831,642
<i>% chg in Funded Pupil Count</i>	<i>-0.7%</i>	<i>-2.2%</i>	<i>-0.2%</i>	<i>-0.1%</i>	<i>-0.1%</i>
Local Share	\$4,186.7	\$4,560.8	\$4,520.6	\$4,691.6	\$4,747.5
State Share	<u>\$5,586.4</u>	<u>\$5,323.6</u>	<u>\$5,635.2</u>	<u>\$5,779.0</u>	<u>\$6,003.9</u>
State Public School Fund	74.4	112.1	106.3	106.7	108.2
State Education Fund (SEF)	1,273.3	822.8	990.2	933.6	991.5
General Fund	4,238.7	4,388.7	4,538.7	4,738.7	4,904.2
<i>General Fund increase</i>	<i>0.0</i>	<i>150.0</i>	<i>150.0</i>	<i>200.0</i>	<i>165.5</i>
<i>General Fund % increase</i>	<i>0.0%</i>	<i>3.5%</i>	<i>3.4%</i>	<i>4.4%</i>	<i>3.5%</i>
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SEF Beginning balance	\$1,674.1	\$1,080.4	\$902.3	\$580.9	\$348.7
SEF Deposits					
Income taxes	\$1,089.4	\$1,171.4	\$1,224.2	\$1,280.7	\$1,339.9
Other transfers	146.0	0.0	0.0	0.0	0.0
Interest earnings	50.6	49.7	37.4	29.5	28.2
Total deposits	1,286.0	1,221.1	1,261.6	1,310.2	1,368.0
SEF expenditures					
State share of total program	\$1,273.3	\$822.8	\$990.2	\$933.6	\$991.5
Categorical programs	377.7	401.0	414.0	426.1	438.5
Other expenditures	228.8	175.4	178.9	182.6	186.7
Total expenditures	\$1,879.8	\$1,399.2	\$1,583.1	\$1,542.3	\$1,616.7
SEF Ending Balance	\$1,080.4	\$902.3	\$580.9	\$348.7	\$100.0

Scenario 4: 3-year Averaging, 7-year Phase-in

This scenario would phase the new formula in over seven years while using three-year student averaging. The implementation percentages used in this scenario match the Governor’s original November 1st recommendation for a seven-year timeline [FY 2025-26 - 10%, FY 2026-27 - 20%, FY 2027-28 - 40%, FY 2028-29 - 50%, FY 2029-30 - 70%, FY 2030-31 - 80%, FY 2031-32 -100%]. This scenario requires General Fund increases ranging from 3.7 to 3.9 percent. **Increases of this magnitude would be more challenging to achieve than those required under the Governor’s proposal to eliminate averaging immediately.** Staff suggests the General Assembly should explore options for phasing out student averaging while phasing in the new formula as a middle ground between Scenario 3 and 4.

Scenario 4: 3-year Averaging, 7-year Phase-in					
Item	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	FY 2028-29
Total Program	\$9,773.2	\$9,929.4	\$10,181.5	\$10,490.4	\$10,757.7
<i>Change in Total Program</i>	<i>\$599.1</i>	<i>\$156.2</i>	<i>\$252.2</i>	<i>\$308.9</i>	<i>\$267.3</i>
Funded Pupil Count	853,384	842,183	840,399	839,170	838,395
<i>% chg in Funded Pupil Count</i>	<i>-0.7%</i>	<i>-1.3%</i>	<i>-0.2%</i>	<i>-0.1%</i>	<i>-0.1%</i>
Local Share	\$4,186.7	\$4,561.4	\$4,520.4	\$4,692.3	\$4,747.9
State Share	\$5,586.4	\$5,368.0	\$5,661.1	\$5,798.2	\$6,009.8
State Public School Fund	74.4	112.1	106.3	106.7	108.2
State Education Fund (SEF)	1,273.3	851.9	979.0	937.3	969.9
General Fund	4,238.7	4,404.0	4,575.8	4,754.2	4,931.7
<i>General Fund increase</i>	<i>0.0</i>	<i>165.3</i>	<i>171.8</i>	<i>178.5</i>	<i>177.5</i>
<i>General Fund % increase</i>	<i>0.0%</i>	<i>3.9%</i>	<i>3.9%</i>	<i>3.9%</i>	<i>3.7%</i>

SEF Beginning balance	\$1,674.1	\$1,080.4	\$873.1	\$562.9	\$327.1
SEF Deposits					
Income taxes	\$1,089.4	\$1,171.4	\$1,224.2	\$1,280.7	\$1,339.9
Other transfers	146.0	0.0	0.0	0.0	0.0
Interest earnings	50.6	49.7	37.4	29.5	28.2
Total deposits	1,286.0	1,221.1	1,261.6	1,310.2	1,368.0
SEF expenditures					
State share of total program	\$1,273.3	\$851.9	\$979.0	\$937.3	\$969.9
Categorical programs	377.7	401.0	414.0	426.1	438.5
Other expenditures	228.8	175.4	178.9	182.6	186.7
Total expenditures	\$1,879.8	\$1,428.3	\$1,571.9	\$1,546.0	\$1,595.1
SEF Ending Balance	\$1,080.4	\$873.1	\$562.9	\$327.1	\$100.0