



Colorado  
Legislative  
Council  
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MEMORANDUM

May 13, 2005

**TO:** Members of the General Assembly  
**FROM:** Deb Godshall, Assistant Director, 303-866-4776  
**SUBJECT:** Financing of Public Schools for FY 2005-06

Senate Bill 05-200 amends the Public School Finance Act of 1994 to provide funding for school districts for the 2005-06 budget year. Senate Bill 05-209, the long appropriation bill, appropriates most of the money distributed to school districts. This memorandum provides highlights of the two bills along with a detailed summary of Senate Bill 05-200 and a printout showing estimates of school district funding for the upcoming school year. Senate Bill 05-200 was signed by the Governor on April 29, 2005.

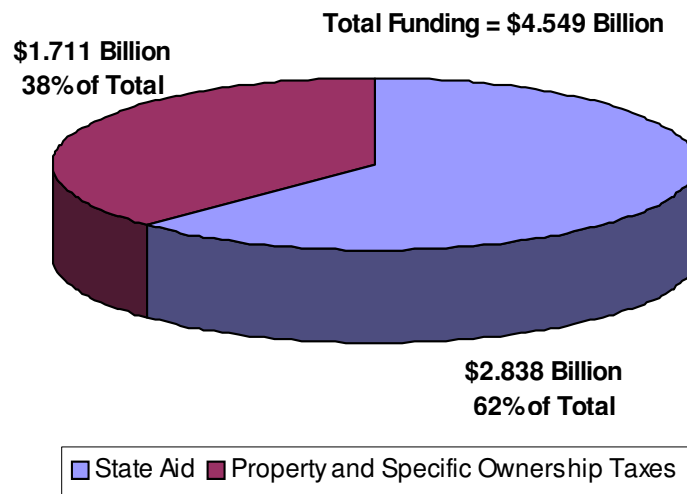
- ✍ The **school finance act** is expected to provide \$4.549 billion to school districts in the 2005-06 budget year. The state provides about 62 percent of this amount—\$2.838 billion—while local property and specific ownership taxes provide the remainder.
- ✍ **School district funding** under the school finance act is expected to increase \$118.8 million in the upcoming budget year, an increase of 2.7 percent. About 80 percent of the increase in school district funding, or \$95.6 million, will come from state sources. Property and specific ownership taxes are expected to increase about \$23.2 million to make up the remainder of the increase.
- ✍ The **General Fund increase** for school finance, sometimes called the "maintenance of effort" or MOE, is 7.6 percent. Amendment 23 requires the General Fund appropriation for school finance to increase by at least 5 percent in 2005-06 if Colorado personal income grows by 4.5 percent or more. Current estimates indicate that personal income grew by more than the threshold percentage, thereby triggering a General Fund increase of at least 5 percent.

- ✍ The increase in the **statewide base** per pupil amount is 1.1 percent, 0.1 percent for inflation plus an additional percentage point as required by Amendment 23. The resulting base is \$4,717.62.
- ✍ The estimated increase in **average per pupil funding** is 1.5 percent. Statewide average per pupil funding is increasing at a faster rate than the base because of changes in funding for at-risk pupils that increase district per pupil funding levels. The statewide average per pupil funding is estimated to be \$6,164 in the 2005-06 budget year.
- ✍ **At-risk funding** is expected to increase \$13.7 million due to law changes that add English language learners to the at-risk count and increase the amount of funding provided for each at-risk student from 11.2 percent to 12 percent.
- ✍ The appropriation increase for the **categorical programs** identified in Amendment 23 is 2.5 percent, or about \$4.1 million. Of the total, \$1.8 million is attributable to the minimum increase requirement of Amendment 23 and comes from the State Education Fund. The remaining \$2.3 million is the result of Senate Bill 05-200, which increases the General Fund appropriation for special education by \$2.3 million.
- ✍ The number of **preschool** slots is increased 1,310 in Senate Bill 05-200, for a total increase in the 2005-06 budget year of 3,310. The total number of preschoolers who may participate in the Colorado Preschool Program in the upcoming budget year is 12,360.
- ✍ **Kindergarten students** who attend a full-day program in a school with an unsatisfactory rating may be counted as a full-day student for funding purposes. In addition, the number of preschool slots that may be used for full-day kindergarten is increased by 500 to 1,500.
- ✍ **Business incentive agreements** are funded through the long bill at \$1.14 million, one-half the projected liability of the agreements.
- ✍ Senate Bill 05-200 appropriates \$83,000 to the National Credential Fund to provide matching grants for teachers seeking **national credential certification** and \$200,000 to assist in developing programs to help students meet the state content standards for **civics**. The source of revenue for both appropriations is the State Education Fund.

## FUNDING FOR DISTRICTS UNDER THE SCHOOL FINANCE ACT

The Public School Finance Act of 1994 is the mechanism through which school districts receive most of their state aid and property taxes. In the 2005-06 budget year, the act is expected to provide \$4.549 billion to school districts. The state provides about 62 percent of this amount; the remaining 38 percent comes from local sources, primarily property taxes but also specific ownership taxes.

**Figure 1. Sources of Money for the School Finance Act  
Fiscal Year 2005-06**



The \$4.549 billion in total school finance funding is an increase of 2.7 percent, or \$118.8 million, over the current budget year. Some of this increase is simply attributable to growth in the number of pupils attending public schools. About 7,950 more pupils are expected to be funded next year, bringing the total to 737,360. A second contributor to the \$118.8 million is the increase required by Amendment 23—and implemented through Senate Bill 05-200—of inflation plus one percentage point. Finally, Senate Bill 05-200 changes the law to increase the number of pupils funded through the act and to increase per pupil funding generated by at-risk pupils.

The increase in school district funding comes from a combination of state money and local taxes. Increases in school district property taxes are capped at inflation plus a district's pupil count change. 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 2005-06 budget year, about 80 percent of the \$118.8 million increase in school district funding is provided by the state; the remaining 20 percent is provided from local taxes. Figure 2 illustrates the components of the \$118.8 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 2005-06**

<b>Component</b>	<b>Total Funding Increase</b>	<b>State Aid</b>	<b>Local Taxes</b>
<b>Current Law</b>			
Pupil count increase of 7,950, including 2,000 preschool slots	\$51,309,700		
Inflation plus one percent	49,299,561		
<i>Subtotal: Current Law</i>	100,609,261	79,157,519	21,451,742
<b>Senate Bill 05-200</b>			
Addition of full-day kindergarten in unsatisfactory schools	399,116	183,247	215,869
Addition of English language learners to at-risk count	3,279,999	3,279,999	0
Increase in allocation for at-risk students from 11.2 percent to 12 percent of per pupil funding	10,464,133	10,464,133	0
Addition of 1,310 preschool slots	4,019,960	2,492,375	1,527,585
<i>Subtotal: Senate Bill 05-200</i>	18,163,208	16,419,754	1,743,454
<b>Total FY 2005-06 Increase</b>	<b>\$118,772,469</b>	<b>\$95,577,273</b>	<b>\$23,195,196</b>

**Per Pupil Funding Is Increased by Inflation Plus One Percentage Point**

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 2005-06 budget year. Senate Bill 05-200 implements that requirement. Inflation for calendar year 2004 was 0.1 percent. Senate Bill 05-200 increases the statewide base by 1.1 percent, from \$4,666.29 in the current budget year to \$4,717.62 in 2005-06. 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 \$49.3 million to school districts next year.

An increase in the statewide base automatically triggers other budget or funding changes for school districts. These include:

- *Minimum per pupil funding.* The minimum per pupil funding amount is the lowest per pupil funding level in the state. It essentially acts as a floor, below which no district's funding can fall, regardless of the formula in the school finance act. The increase in the statewide base

of 1.1 percent results in a similar increase in minimum per pupil funding, from \$5,627 in the current budget year to \$5,689 in 2005-06.

- *Instructional supplies and materials.* The 1.1 percent increase in the statewide base increases the amount that must be allocated for instructional supplies and materials to \$166 per pupil in 2005-06.
- *Capital reserve/risk management.* The increase in the statewide base also increases the amount that must be allocated for capital and risk management activities to \$271 per pupil in 2005-06.

### **Full-day Kindergarten Is Created for Unsatisfactory Schools**

Kindergarten pupils are currently funded as half-time students through the school finance act. Senate Bill 05-200 permits school districts to count as full-time any kindergarten pupil who is in a full-day program in a school that received an academic performance rating of "unsatisfactory" in the preceding year. Two schools will be eligible for the additional funding in 2005-06. School districts may contract with other entities, such as Head Start, to provide the program. Senate Bill 05-200 authorizes the use of the State Education Fund to provide state money for this program.

A similar full-day kindergarten program was created as a pilot program in 2001. It was funded in the 2001-02 and 2002-03 school years, but repealed in 2003. Senate Bill 05-200 recreates the repealed program as a permanent program.

### **Funding for At-Risk Pupils Increases**

The amount of money school districts receive for at-risk pupils is based both on the number of pupils for which funding is provided and the amount of funding provided per pupil. Senate Bill 05-200 addresses both of these elements of at-risk funding. A district must spend at least 75 percent of its at-risk funding on the direct instruction or staff development for the educational program of at-risk pupils.

*Addition of English language learners.* In 2001, the General Assembly added English language learners to the definition of at-risk pupils for which districts receive additional funding. The expanded definition was in effect for the 2001-02 and 2002-03 school years and then repealed in 2003. Senate Bill 05-200 restores this population of pupils to the at-risk count beginning with the 2005-06 school year. Statewide, the additional revenue to school districts is estimated to be \$3.3 million.

The new definition of at-risk pupils includes pupils who have limited proficiency in English, as defined by the English Language Proficiency Act. A pupil would be included in the at-risk count if a pupil either took the CSAP test in a language other than English or took the CSAP test but the pupil's test score was not included in a school's academic

performance ratings. Generally, this latter group of pupils includes any pupil who has been in a Colorado public school for less than three years whose predominant language is something other than English. A pupil may not be counted as at-risk more than once. That is, English language learners are only counted if they are not eligible for free lunches. Unlike the original legislation in 2001, Senate Bill 05-200 does not require the additional revenue derived from students with limited proficiency in English to be spent on the district's English language proficiency program.

***Increase in at-risk funding.*** Senate Bill 05-200 increases the amount of money a school district receives for each at-risk pupil from 11.2 percent to 12 percent of per pupil funding. (The percentage had been reduced from 11.5 percent to 11.2 percent for the 2004-05, 2005-06, and 2006-07 budget years.) The law change is expected to provide \$10.5 million to school districts in 2005-06.

### **The Number of Slots for the Colorado Preschool Program Is Increased**

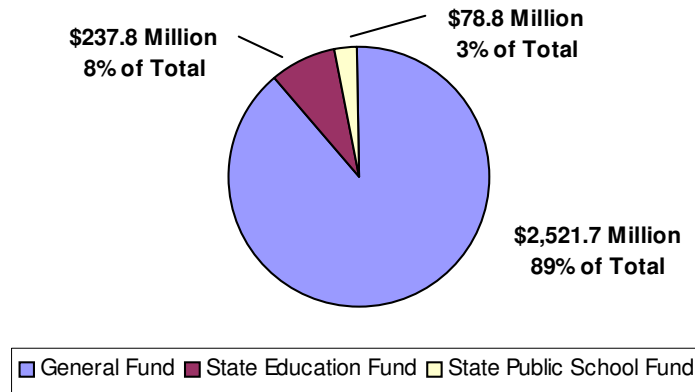
Under the Colorado Preschool Program, school districts receive funding through the school finance act for providing programs for at-risk children aged three to five. Since its inception in 1989, the number of children who can participate in the program has been capped. The number of allowable participants reached its zenith in the 2002-03 budget year at 11,050 children, was reduced to 9,050 for the 2003-04 and 2004-05 budget years, and, under current law, returns to 11,050 children in the upcoming year. As a current law provision, funding for restoring the 2,000 slots is contained in the long bill and is illustrated in the pupil count increase dollar amount in Figure 2.

Senate Bill 05-200 further increases the number of preschool slots by 1,310, to 12,360 in the 2005-06 and future budget years, increasing revenue to school districts by about \$4 million. In addition, Senate Bill 05-200 increases the number of full-day kindergarten slots that can be substituted for preschool slots from 1,000 to 1,500.

### **State Aid for the School Finance Act Comes from Three Sources**

The school finance act is projected to require \$2.838 billion from state sources in the 2005-06 budget year. The appropriation for this amount comes from three sources: the state General Fund, the State Education Fund, and the State Public School Fund. The General Fund provides the vast majority of funding from state sources, at 89 percent of the total. The State Education Fund, created by Amendment 23, provides about 8 percent of the appropriation. The State Education Fund gets its revenue from the equivalent of a tax of one-third of one percent on federal taxable income. Finally, the State Public School Fund, which is capitalized primarily from interest on the Public School Fund, rents on state school trust lands, and federal mineral lease royalties, provides about 3 percent of the school finance appropriation for the 2005-06 budget year.

**Figure 3. Sources of State Aid, FY 2005-06**



The \$2.838 billion state aid appropriation for 2005-06 is an increase of \$94.5 million over the current year appropriation.<sup>1</sup> In appropriating the state aid increase, the General Assembly is subject to a minimum requirement for the General Fund increase. Through the 2010-11 budget year, the General Assembly must increase the General Fund appropriation by at least 5 percent in any year in which personal income growth is 4.5 percent or more. With current estimates indicating that personal income in Colorado grew by more than 4.5 percent in 2004, the minimum General Fund increase, or "maintenance of effort," is in effect for the upcoming budget year. The General Fund increase of \$178.9 million for school finance is an increase of 7.6 percent, \$61.8 million above a 5 percent increase. In addition, the General Fund increase of \$178.9 million exceeds the total state aid requirement of \$94.5 million. Thus, the appropriations from the other two sources of revenue—the State Education Fund and the State Public School Fund—are reduced. The total amount of the reduction from these two sources is equal to the amount by which the General Fund increase exceeds the total state aid appropriation: \$84.4 million. Figure 4 illustrates this phenomenon.

**Figure 4. School Finance Appropriation by Revenue Source, FY 2005-06 (Millions of Dollars)**

	Total	General Fund	State Education Fund	State Public School Fund
FY 2005-06 Appropriation	\$2,838.4	\$2,521.7	\$237.8	\$78.8
Dollar Change from FY 2004-05	\$94.5	\$178.9	(\$75.6)	(\$8.8)
Percent Change from FY 2004-05	3.4%	7.6%	-24.1%	-10.1%

<sup>1</sup> The difference between the \$94.5 million in this sentence and the \$95.6 million in Figure 2 is the change in the appropriation for business incentive agreements. The appropriation for FY 2005-06 is about \$1.1 million less than the current-year level.

## CATEGORICAL PROGRAMS

Amendment 23 requires that total state funding for all categorical programs grow by at least 1.1 percent in the 2005-06 budget year. The constitutional amendment also designates the programs that are considered "categorical" programs. The minimum increase required by Amendment 23, which translates to \$1.8 million, is contained in the long bill. In addition to the increase in the long bill, Senate Bill 05-200 increases funding for disabled students in special education programs by \$2.3 million. Figure 5 compares state funding for categorical programs in the current budget year with funding in 2005-06. Some of the programs listed in Figure 5, such as special education, also receive federal funding.

**Figure 5. Comparison of State Funding for Categorical Programs  
FY 2004-05 and FY 2005-06**

Categorical Program	FY 2004-05	FY 2005-06	Change
Transportation	\$41,418,393	\$41,609,133	\$190,740
Special Education	86,634,025	90,233,326	3,599,301
Gifted and Talented	6,258,744	6,258,744	0
English Language Proficiency	3,766,630	4,043,555	276,925
Small Attendance Centers	843,781	843,781	0
Expelled and Suspended Student Services Grants	6,285,171	6,285,171	0
Vocational Education	19,959,556	19,996,048	36,492
Comprehensive Health Education	600,000	600,000	0
<b>Total</b>	<b>\$165,766,300</b>	<b>\$169,869,758</b>	<b>\$4,103,458</b>

Senate Bill 05-200 amends state law relating to vocational education programs by permitting a board of cooperative services to receive money from the vocational education appropriation if it is conducting such a course. The calculation of costs and funding is determined using the same method as for school districts.

## CAPITAL CONSTRUCTION

The state bonding question, which will be submitted to voters on November 1 (pending signature of the Governor), provides revenue for school district capital construction. Of the \$2.072 billion in total allowable borrowing, House Joint Resolution 05-1057 sets aside up to \$147 million for capital projects in public schools. The \$147 million would be credited to the School Capital Construction Expenditures Reserve, an existing fund that provides grants to school districts to address immediate safety hazards or health concerns, excessive operating costs caused by insufficient spending on buildings, and building construction conditions that detract from an effective learning environment.



Although there was considerable debate on capital construction funding during debate on the school finance bill, little was changed in current law. Provisions of current law that remain intact include the \$5 million expenditure from the State Education Fund for charter school capital and the matching \$5 million expenditure from the State Education Fund for school district capital. Senate Bill 05-200 eliminates the \$5 million match for school district capital beginning with the 2006-07 budget year, however.

Finally, Senate Bill 05-200 eliminates a date restriction on the use of a higher bonded debt limit for increasing enrollment districts. The bonded debt limit of 25 percent of assessed value for increasing enrollment districts was scheduled to expire on July 1, 2005. Under Senate Bill 05-200, the higher bonded debt limit is in place permanently.

### MISCELLANEOUS

Other actions of note, either in the school finance bill or the long bill, include the following:

- Senate Bill 05-200 requires the Department of Education to assist school districts in developing and promoting programs that address the state model content standards for **civics** and promote best practices in civic education. It appropriates \$200,000 from the State Education Fund for this purpose.
- The long bill appropriates about \$1.14 million for **business incentive agreements**, or about half the projected cost of the agreements. Senate Bill 05-200 limits the impact of an appropriation that is less than the cost to districts that have entered into such agreements.
- Senate Bill 05-200 appropriates \$83,000 from the State Education Fund to provide assistance to teachers seeking **national credentials** from an approved professional organization, such as the National Board for Professional Teaching Standards. State assistance matches the amount a teacher receives through a federal assistance program.
- Senate Bill 05-200 requires the state Board of Education to prepare a report detailing the amount of **federal funds** it receives and how those funds are used. The report must be submitted to the House and Senate Education committees by July 1 each year, beginning in 2005.
- The long bill appropriates \$250,000 from the General Fund for **school breakfast programs**. The appropriation provides money to create, expand, or enhance a breakfast program in a school with a low or unsatisfactory academic performance rating. The appropriation for 2005-06 is the second year money has been provided; the first was the year of the program's inception in 2002-03.