



Colorado
Legislative
Council
Staff

Room 029 State Capitol, Denver, CO 80203-1784
(303) 866-3521 FAX: 866-3855 TDD: 866-3472

MEMORANDUM

June 8, 2001

TO: Members of the General Assembly

FROM: Deb Godshall, Assistant Director, (303) 866-3521

SUBJECT: Summary of Senate Bill 01-129, Concerning the Financing of Public Schools

Senate Bill 01-129 amends the Public School Finance Act of 1994 to provide funding for school districts for the 2001-02 budget year. It also creates new programs that provide funding for public education outside of the school finance act. This memorandum provides highlights of the bill along with a detailed summary of each provision and a printout showing estimates of school district funding for the upcoming school year.

- The **school finance act** is expected to provide almost \$3.844 billion for the state's 178 school districts in FY 2001-02. State sources will contribute \$2.219 billion, while local taxes provide about \$1.625 billion. When the full-day kindergarten program created in Senate Bill 01-91 is included, the total and state aid amounts increase by \$2.9 million.
- **School district funding** under the school finance act will increase by an estimated \$258.9 million in FY 2001-02. State aid will contribute \$171 million of this amount, including \$67.7 million from the State Education Fund. Local property and specific ownership taxes provide about \$87.8 million of the total increase.

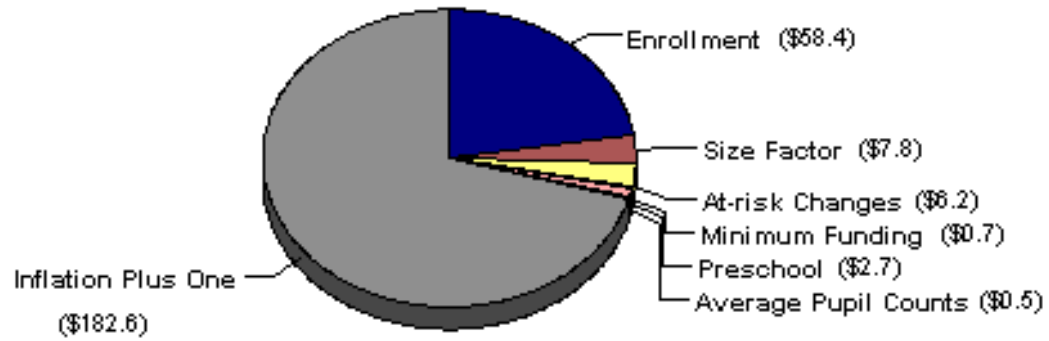
- The **General Fund** increase for school finance, sometimes referred to as "maintenance of effort," is 5.8 percent, an increase of \$114.5 million. The state constitution requires a minimum increase of five percent.
- The increase in the **statewide base per pupil amount** is five percent, four percent for inflation plus an additional one percentage point, as required by Amendment 23. The resulting base is \$4,202, an increase of \$200.30 over FY 2000-01.
- The increase in **average per pupil funding** is 5.5 percent, or \$282 per pupil. Average per pupil funding is increasing at a higher rate than the base because of law changes that increase per pupil funding in various districts.
- **Capital construction funding** for public schools is increased by \$10.6 million over the amount required by law for FY 2001-02. One-half the increase is earmarked for charter schools, while the remaining half is dedicated to alleviating safety hazards and health concerns of school district buildings.
- The number of **preschoolers** funded under the school finance act is increased by 1,000 to 10,500.
- Two new programs are created to provide financial assistance for schools and students that are performing poorly. Senate Bill 01-129 appropriates \$2.9 million for **school improvement grants** and \$945,800 for **summer school program grants**.
- The state match for the **National School Lunch Act** is provided through a state appropriation totaling \$2,472,644.

Funding for Districts Under the School Finance Act

School district funding under the school finance act will increase by an estimated \$258.9 million in FY 2001-02. This increase is attributable to an increase in pupils, a law change in 2000 that increases the size factor for districts with pupil counts of between 4,566 and 29,977, and the provisions of Senate Bill 01-129. Senate Bill 01-129 increases the base per pupil funding amount and the minimum per pupil funding amount, funding for at-risk programs, and the number of children funded under the Colorado Preschool Program. Graph 1 illustrates the cost of each of the components of increase relative to the total increase of \$258.9 million.

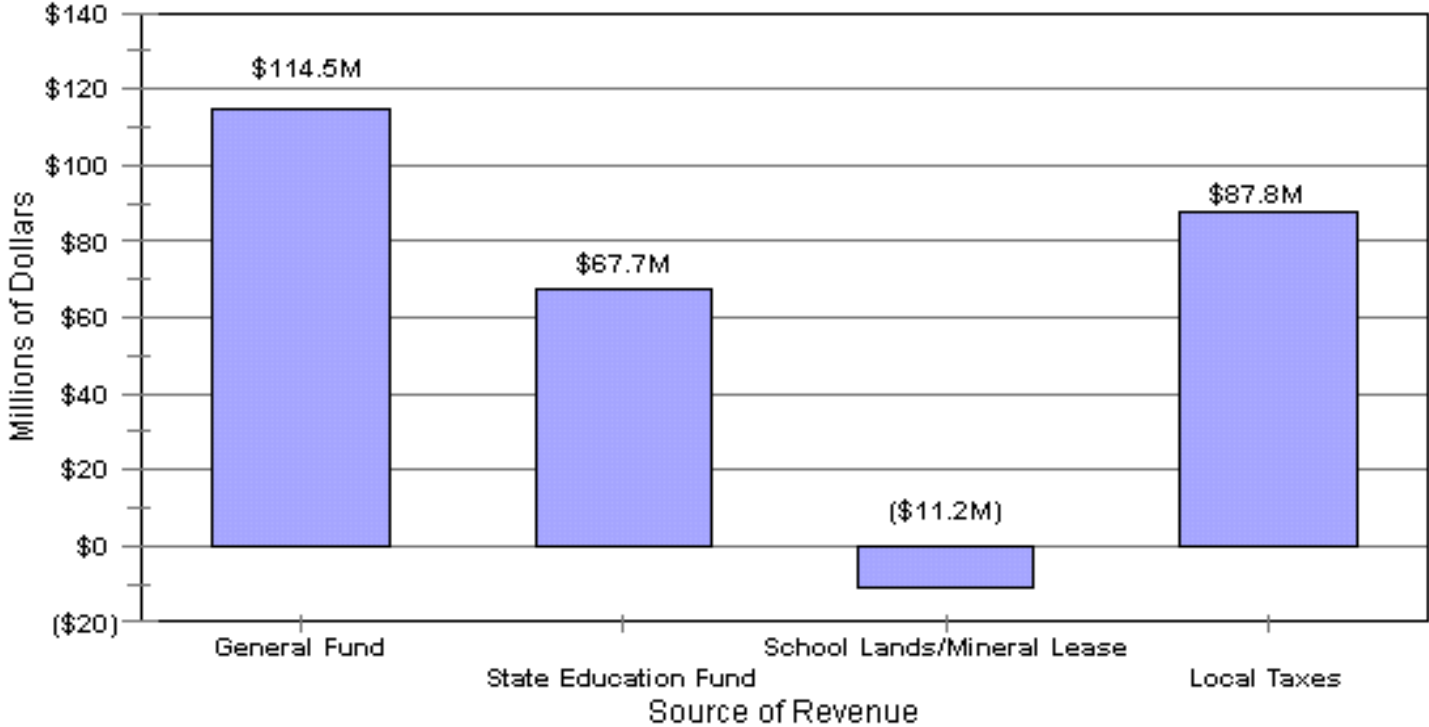
Graph 1: Components of Increase in School Finance Funding

Dollars in Million



The increase in school district funding is provided by two sources: state aid and local taxes. The traditional state aid sources are the General Fund and cash funds primarily from state school lands and federal mineral lease moneys. In FY 2001-02, these traditional state sources are supplemented by the State Education Fund. Local taxes consist of property taxes and specific ownership taxes. Graph 2 shows the breakout of sources of revenue for the \$258.9 million increase in school district funding.

Graph 2: Source of Revenue for Increase in School District Funding



Modifications to the Funding Formula for School District

The Public School Finance Act of 1994 is the mechanism through which school districts receive most of their state aid and property taxes. It also contains the "statewide base per pupil funding" amount, which is the dollar amount required to be increased by inflation plus one percentage point for FY 2001-02. Senate Bill 01-129 provides that increase, and it amends several other provisions of the law, as described in the following paragraphs.

Statewide base. The statewide base is increased five percent, from \$4,001.70 to \$4,202. The statewide base 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 five percent increase is based on an inflation rate of four percent in 2000 plus an additional one percentage point as required by Amendment 23.

Minimum per pupil funding. The lowest allowable level of per pupil funding is increased 5.7 percent, from \$4,824 in the current budget year to \$5,100 in FY 2001-02. The minimum applies to any district that would receive a lesser amount under the basic funding formula. Six districts are expected to be affected by this provision.

At-risk funding. Senate Bill 01-129 makes three changes that affect at-risk funding for school districts. First, Senate Bill 01-129 permits the **averaging of at-risk counts** to mitigate the impact on funding of declines in the number of students who qualify as at risk. Districts would receive the greater of: (1) the actual count, (2) an average of the actual count and the preceding year's count, or (3) an average of the actual count and the counts from the two preceding years. The averaging of at-risk counts is estimated to cost about \$1.5 million. Second, beginning in FY 2001-02, the **definition of an at-risk pupil** is expanded to include a new group of students who have limited proficiency in English, as defined by the English Language Proficiency Act. Students would be included in the at-risk count if they either took the CSAP test in a language other than English or they took the CSAP test but their test score is not included in a school's academic performance ratings. Generally, this latter group of students includes any student who has been in a Colorado public school for less than three years (two years for third graders) whose predominant language is something other than English. The additional revenue derived from students with limited proficiency in English must be spent on the district's English language proficiency program. Statewide, the additional revenue is estimated to be \$3.8 million.

Finally, the **at-risk concentration factor** for large districts is increased from 0.34 to 0.36. This at-risk concentration factor provides additional funding to districts with both a proportion of at-risk students greater than the statewide average and a pupil count greater than 50,000. Denver is the only school district that currently meets the two criteria. The additional funding from the increase in the factor--estimated at just over \$800,000-- must be spent on the district's English language proficiency program.

Yuma County districts. Senate Bill 01-129 permits the four districts that resulted from the deconsolidation of two school districts in Yuma County to average their pupil counts in the same manner that other districts average their counts. The two small attendance centers that are now new districts will average the pupil counts of the small attendance centers, while the two previously existing districts will average the counts of the districts excluding the small attendance centers.

Maintenance of Effort Increase for School Finance

Maintenance of effort refers to the General Fund increase for school finance funding. Section 17 (5) of Article IX of the Colorado Constitution, enacted through Amendment 23 at the 2000 election, requires the General Assembly to increase the General Fund appropriation for school finance by at least five percent in FY 2001-02. Senate Bill 01-129 sets a two-pronged maintenance of effort increase for FY 2001-02, depending on the final disposition of Senate Bill 01-119. Had Senate Bill 01-119 been enacted into law, the General Fund increase would have been 5.92 percent, or just under \$117 million. Because Senate Bill 01-119 was postponed indefinitely, the General Fund increase is 5.8 percent, or \$114.5 million. According to Senate Bill 01-129, the maintenance of effort increase is to be determined annually by the General Assembly.

Colorado Preschool Program

Senate Bill 01-129 increases the number of preschoolers funded under the school finance act by 1,000 students. The increase brings the total number of preschool slots to 10,050. Of these slots, the Department of Education can allocate up to 1,000 slots to full-day kindergarten in FY 2001-02. The department cannot use waivers to increase the number of full-day kindergarten slots above 1,000. The cost of the additional 1,000 preschool slots is \$2.7 million.

Local Elections for Supplemental Cost-of-Living Adjustment

Senate Bill 01-129 allows school districts to request voter approval for a mill levy to raise property taxes for a "supplemental cost-of-living adjustment." Under the current school finance act, the cost-of-living factor is one of the factors that determine school district funding. The method for calculating this factor is contained in the act, and the resulting per pupil funding comes from a combination of state aid and property taxes. Senate Bill 01-129 contains a second formula for calculating an "adjusted" cost-of-living factor. If a district's funding would be higher using this second formula, a district can request voter approval to raise the additional amount from the property tax. Current estimates indicate that 103 districts would be eligible to request \$142 million in property taxes under Senate Bill 01-129.

A district can continue collecting property taxes for the supplemental cost-of-living adjustment once it has received the required voter approval, within certain limitations. First, the property taxes collected in any given year cannot exceed the amount of the supplemental cost-of-living adjustment. Because cost-of-living amounts are recalculated every other year, the amount of the supplemental cost-of-living adjustment is likely to change. Changes in pupil counts, the base, and the law also can affect the amount of the supplemental cost-of-living adjustment. Second, after the initial election, a district cannot increase its levy above the preceding year's levy without a subsequent election.

New Programs and Amendments to Existing Laws

In addition to establishing the funding formula for the school finance act, Senate Bill 01-129 creates new programs to distribute money to schools or school districts to address specific issues. For example, the bill sets up a formula for distributing money to charter schools for capital construction needs and to distribute money to poorly performing schools to develop and implement school improvement plans. The bill also amends existing provisions of law that deal with charter schools and school improvement plans, among others. The following paragraphs summarize these additions and changes.

Capital Construction

Senate Bill 01-129 creates a new program to distribute state aid to charter schools for capital construction. The bill also expands a current program of state aid for school district capital construction. Both programs are funded from the State Education Fund.

State aid for charter schools. Qualified charter schools will receive \$322 per pupil in FY 2001-02 to construct, demolish, remodel, finance, purchase, or lease facilities for a charter school. The per pupil amount--and the amount for future years--is determined by multiplying the minimum transfer for capital reserve/risk management by 130 percent. Each year, the minimum transfer for capital reserve/risk management increases at the same rate as the statewide base. Thus, the per pupil funding amount for charter school capital construction will increase annually by the percentage increase in the base.

A charter school qualifies for capital construction money if it will receive funding from a district for the budget year. In addition, the proposed budget for the charter school must indicate that the school will spend more than three percent of its operating revenue for capital construction in the budget year *or* a charter school must have spent more than three percent of its operating revenue for capital construction in the second year preceding the applicable budget year.

Senate Bill 01-129 appropriates \$5.3 million from the State Education Fund for FY 2001-02 for this program. The money is allocated to school districts for distribution to schools chartered by the district. A charter school recipient can only use the money for capital construction.

Bond proceeds for charter schools. In addition to providing state aid for charter school capital construction, Senate Bill 01-129 directs that qualified charter schools (any school that is eligible for capital construction money) receive a proportionate amount of the proceeds of district bond sales. The proportion is determined using the ratio of a district's qualified charter school pupil enrollment to the total enrollment of all schools in the district that will receive proceeds from a bond sale. The proportionate distribution applies only to charter schools that serve students at grade levels that are also served by similarly situated, non-charter public schools. Senate Bill 01-237, which has been signed by the Governor, delays the implementation of this requirement for a year. As such, it would apply to bond issues resulting from elections occurring after July 1, 2002. Ballot questions relating to bond issues are required to identify any charter schools that will receive bond proceeds.

School districts. Senate Bill 01-129 requires the General Assembly to appropriate to the School Capital Construction Expenditures Reserve the same amount of money that is appropriated for charter school capital construction. Therefore, Senate Bill 01-129 appropriates \$5.3 million to the reserve for FY 2001-02. The source of the money is the State Education Fund.

The School Capital Construction Expenditures Reserve was created in 2000 to provide state money to address immediate safety hazards or health concerns within existing school facilities, relieve excessive operating costs created by insufficient maintenance or construction spending, and relieve building construction conditions that detract from an effective learning environment. The State Board of Education is responsible for distributing money from the reserve to school districts.

Charter Schools

In addition to providing funding for charter school capital needs, Senate Bill 01-129 addresses financing of charter schools, as follows.

- By September 28 each year, school districts must provide charter schools with an itemized accounting of central administrative costs and the actual district-wide costs of providing any services the charter has purchased from the district (such as food, custodial, or curriculum services). For districts with more than 500 pupils, the actual central administrative costs must be used to determine per pupil funding for a charter school if they are less than five percent of per pupil revenue. The actual costs are also used to determine the amount charter schools pay to the district for purchased services.
- School districts and charter schools must collaborate in developing a transportation plan to use school district equipment to transport charter school students if a charter school's charter includes the provision of transportation services by the district.

School Improvement Grants and Plans

Senate Bill 01-129 creates a grant program to provide money to schools rated as unsatisfactory to implement school improvement plans. Any school that receives an academic performance rating of unsatisfactory in the 2000-01 school year is eligible for a two-year grant beginning with the 2001-02 school year. For each of the two years, elementary schools receive \$75,000; middle or junior high schools receive \$100,000; and high schools receive \$125,000. Receipt of a grant is contingent upon the local board of education submitting a school improvement plan to the State Board of Education. In addition to the base grant amount, any school that improves by at least a half a point from the standard deviation over the preceding year's total score receives \$25,000. Senate Bill 01-129 contains an appropriation of \$2.9 million from the State Education Fund to pay for the grant program in FY 2001-02.

In addition to creating a grant program, Senate Bill 01-129 makes several changes to the school improvement process enacted by the General Assembly in 2000. These include:

- requiring school districts to submit a school improvement plan after the first notification that any school in the district is receiving an unsatisfactory rating and eliminating the ability of the state board to recommend conversion of an unsatisfactory school to an independent charter school in that year;
- delaying by one year the time period for the state board to recommend conversion to an independent charter school;
- advancing the date by which the department must notify local boards of education that a school will receive an unsatisfactory rating to May 1, beginning in 2003;
- eliminating specific requirements for information to be included in school improvement plans and requiring instead that federal and state requirements be coordinated;
- condensing the time period for conversion to an independent charter school from nine to three months;
- requiring that the results of non-English assessments be released at the same time as those for English assessments.

Measuring Academic Progress of Students

Senate Bill 01-129 appropriates \$388,000 from the State Education Fund to modify the Department of Education's data reporting system so that it can be used to measure a student's academic progress on the CSAPs from year to year and over time. To this end, the reporting system must be modified so that it can store all CSAP scores beginning with the 2001-02 school year; perform longitudinal analyses of individual student, classroom, and school CSAP results; and track CSAP results of students who move to from one district to another. To perform this task, the state board is authorized to adopt rules that establish a method to identify individual students.

Summer School Grant Program

Senate Bill 01-129 appropriates \$945,800 from the State Education Fund for distribution to school districts that provide summer school reading programs. The summer school reading programs must be designed to provide intensive literacy and reading comprehension education services to students who have scored at the unsatisfactory proficiency level on the third or fourth grade reading CSAP. Districts must apply

to the Department of Education for funding under the program, and each applying district receives \$100 for each student enrolled in the program.

National School Lunch Act

Senate Bill 01-129 requires the General Assembly to appropriate money to provide the state match under the National School Lunch Act and appropriates \$2,472,644 for that purpose for FY 2001-02. The money provided by the state can be used only for the school lunch program and cannot supplant any money currently provided by a school district from its general fund.

Miscellaneous

Senate Bill 01-129 also addresses the contingency reserve, the transfer of money for school-to-work alliance programs, drug testing of employees in safety-sensitive positions, the calculation of tuition for special education students served by community centered boards or other facilities, moneys remaining in the Read-to-Achieve Cash Fund at the end of the fiscal year, and the number of approved boards of cooperative services.

- ***The contingency reserve:*** Any money remaining in the contingency reserve at the end of a fiscal year now stays in the contingency reserve rather than reverting to the General Fund. Similarly, the repayment of any loans from the contingency reserve would be credited to the reserve rather than the General Fund. The purpose of these two changes is to provide a continuing source of revenue for the contingency reserve, which is used to assist school districts with unusual financial circumstances.
- ***School-to-work alliance programs:*** Under Senate Bill 01-129, districts can have their share of the cost of participating in school-to-work alliance programs deposited directly with the Division of Vocational Rehabilitation in the Department of Human Services.
- ***Drug testing of employees:*** Beginning July 1, 2001, all new collective bargaining agreements covering employees in safety-sensitive positions must include drug testing policies for those employees. A "safety-sensitive position" is one in which a single mistake can create imminent threat of serious harm to students or teachers.
- ***Tuition for special education students:*** Facilities that educate special education students are no longer required to reduce their costs by revenue received as donations or special education grants.
- ***Read-to-Achieve Cash Fund:*** Any unencumbered money remaining in the Read-to-Achieve Cash Fund at the end of a fiscal year will now remain in the fund instead of being transferred to the Tobacco Litigation Settlement Trust Fund.

- ***Boards of cooperative services (BOCS):*** Senate Bill 01-129 increases the number of boards of cooperative services receiving state money from 17 to 22. Since each BOCS receives \$10,000 in state assistance, the cost of the five additional BOCS is \$50,000.

Reporting Requirements

Senate Bill 01-129 contains several requirements for submitting reports either to committees of the General Assembly or to the Department of Education. A brief description of these reports follows.

- ***The school improvement grant program:*** The Department of Education is required to prepare a report that lists the school districts that received school improvement grants on behalf of eligible schools, the academic performance rating received by each eligible school for the preceding school year, and any other beneficial information on the effectiveness of the grant program. The report must be submitted to the Governor, the Education committees of the General Assembly, and local boards of education of recipient districts by January 1, 2002 and 2003.
- ***The summer school grant program:*** Each school district that participates in the grant program must submit a report to the department by October 1 that details the number of students who were eligible for the program, the number who actually enrolled in the program, and the subsequent performance of students who enrolled in the program in reading and writing CSAPs.
- ***State Education Fund spending for capital construction:*** By February 1, 2003, and each February 1 thereafter, the state auditor is required to report on such items as the amount of State Education Fund moneys spent by school districts and charter schools, the schools and projects on which such moneys were spent, and the number of pupils in schools that benefitted from the expenditure of the money. The report is to be submitted to the Education committees of the General Assembly, the Legislative Audit Committee and the Joint Budget Committee.
- ***Charter school capital construction:*** By February 1 each year, the department must certify the total number of pupils expected to be enrolled in qualifying charter schools in the upcoming budget year to the Education and Joint Budget committees. Districts must report this information to the department.
- ***At-risk funding:*** Any district with a pupil enrollment of more than 6,000 must submit a report to the department by October 1 each year on how it spent any at-risk funding it received. The department must then transmit a summary report to the Education and Joint Budget committees by January 15, beginning in 2002.