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MEMORANDUM

May 7, 2003

TO: Members of the General Assembly

FROM: Legislative Council Staff, 303-866-3521

SUBJECT: Summary of Senate Bill 03-248 Relating to the Financing of Public Schools

Senate Bill 03-248 amends the Public School Finance Act of 1994 to provide funding for school districts for the 2003-04 budget year. It also addresses such matters as funding for school district and charter school capital construction, counting on-line pupils, funding for boards of cooperative services, and Department of Education reporting requirements. This memorandum summarizes the bill and provides a printout showing estimates of school district funding.

- The **school finance act** is expected to provide \$4.302 billion for the state's 178 school districts in FY 2003-04. State sources contribute 60.6 percent of this amount—about \$2.605 billion—while local taxes provide the remaining 39.4 percent.
- School district funding** under the school finance act is expected to increase by an estimated \$141.9 million in FY 2003-04, or about 3.4 percent. State aid provides about \$120.2 million of this amount. Local property and specific ownership taxes make up the remainder.
- The **General Fund** increase for school finance, sometimes referred to as "maintenance of effort" or MOE, is 5.2 percent, an increase of almost \$110.3 million. The constitutional provision requiring a General Fund increase of 5 percent does not come into play in FY 2003-04 because personal income grew by only 1.2 percent in 2002. The threshold for invoking the 5 percent minimum General Fund increase is personal income growth of 4.5 percent.
- The increase in the **statewide base** per pupil amount is 2.9 percent, 1.9 percent for inflation plus the additional percentage point required by the constitution. The resulting base is \$4,570.31.

- The estimated increase in **average per pupil funding** is 2.3 percent. Average per pupil funding is increasing at a slower rate than the base because of changes in the funding formula, such as the reduction in the size factor and the elimination of averaging and English language learners from the at-risk count, that slow the increase in district per pupil funding levels. The statewide average per pupil funding is estimated to be \$5,930.
- **Minimum per pupil funding** is increasing from \$5,435 to \$5,511, an increase of 1.4 percent.
- The number of students funded under the school finance act is reduced through three changes in the law: the number of **preschool slots** is reduced from 11,050 to 9,050; the **full-day kindergarten pilot program** (approximately 615 full-day slots, serving 1,230 pupils) is repealed; and the ability for 135 new homeschool and private school students to participate annually in **on-line programs** is repealed.
- Funding for public school **capital construction** totals \$15 million. The General Assembly appropriated \$5 million for charter schools and \$10 million for the two funds designated for capital construction money under the *Giardino* lawsuit settlement. The \$15 million comes from the State Education Fund.

FUNDING FOR DISTRICTS UNDER THE SCHOOL FINANCE ACT

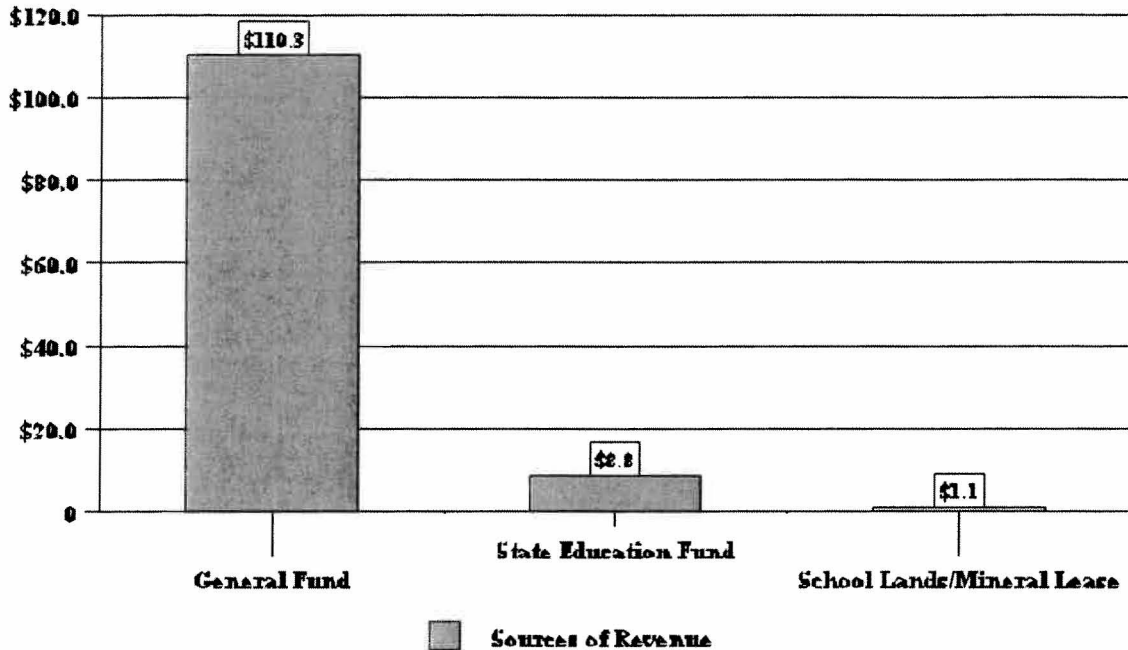
The Public School Finance Act of 1994 is the mechanism through which school districts receive most of their state aid and property taxes. School district funding under the act will increase by an estimated \$141.9 million in the budget year that begins July 1, 2003. A portion of the school finance funding increase is simply attributable to anticipated growth in pupils: an estimated 7,600 new pupils will be funded in Colorado schools next year. The increase is also the result of the 2.9 percent increase in the statewide base per pupil funding amount contained in Senate Bill 03-248. The increase in the base increases district per pupil funding levels. However, Senate Bill 03-248 also contains \$31.6 million in savings. It reduces the number of students funded through the finance act—and therefore eliminates the funding associated with these students—and reduces elements of the funding formula, such as the size factor and the number of students eligible for at-risk funding. Table 1 details the costs and savings associated with the school finance provisions of Senate Bill 03-248.

**Table 1: Increase/(Decrease) in Components of School Finance
Funding over FY 2002-03
(Millions of Dollars)**

Component	Cost Increase/ (Decrease)	Percent of Increase
Projected School Finance Funding Increase Prior to the Passage of SB 03-248		
Enrollment Growth (7,612 pupils)	\$51.4	36.2%
SB 03-248 School Finance Funding Changes		
Inflation Plus One	122.1	86.0%
Eliminate Funding for 135 On-line Students Not Otherwise Eligible	(0.8)	-0.6%
Eliminate Averaging of At-Risk Pupils and Eliminate Funding for English Learners	(4.0)	-2.8%
Reduce the Size Factor by .0045	(16.4)	-11.6%
Reduce Preschool to 9,050 Slots and Take Preschoolers Out of the Averaging Formula	(4.5)	-3.2%
Reduce Minimum Funding from \$5,593 to \$5,511	(4.1)	-2.9%
Eliminate Full-day Kindergarten	(1.8)	-1.3%
SB 03-248 School Finance Funding Impact	\$90.5	63.8%
Total Increase Over FY 2002-03	\$141.9	100.0%

Eighty-five percent of the \$141.9 million increase in school district funding comes from state aid. This increase of \$120.2 million in state aid is provided by the General Fund, the State Education Fund, and cash funds from such sources as state school lands and federal mineral lease moneys. Graph 1 shows how each of these sources contribute to the total increase in state aid.

Graph 1: Sources of Revenue for Increase in School District Funding
(Millions of Dollars)



Statewide Base Per Pupil Funding Amount

Senate Bill 03-248 increases the statewide base 2.9 percent, from \$4,441.51 to \$4,570.31. 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 2.9 percent increase is based on an inflation rate of 1.9 percent in 2002 plus an additional one percentage point as required by Amendment 23.

Size Factor

The size factor is one of the adjustments that determines a district's per pupil funding under the school finance act. A district's size factor is based on its pupil count and a formula contained in state law. The factor increases per pupil funding in each district with a pupil count of 4,023 or more by 3.42 percent (a factor of 1.0342); the percentage increase in per pupil funding is greater in districts with fewer than 4,023 pupils. For example, the increase for the district with the fewest pupils is 134 percent (a factor of 2.3400). Senate Bill 03-248 permanently reduces the factor in each district by 0.0045.

Minimum Per Pupil Funding

Senate Bill 03-248 sets the lowest allowable level of district per pupil funding at \$5,511 in FY 2003-04, an increase of 1.4 percent over the current year's level. Minimum per pupil funding would have normally increased 2.9 percent, the same rate as the statewide base. The change to \$5,511 approximates what the minimum level of per pupil funding would be in FY 2003-04 had it increased at the same rate as the base in the last two years, rather than at a greater rate.

Funding for At-risk Pupils

School districts receive additional money for each at-risk student counted. Senate Bill 03-248 rescinds two expansions to the at-risk count adopted by the General Assembly in 2001. First, it eliminates the ability of a school district to average its at-risk count when the number of at-risk students declines. A district's count is currently the highest of the current year's count, a two-year average, and a three-year average. Second, it limits at-risk students to students who meet the income eligibility guidelines of the National School Lunch Act for free meals, thereby excluding specific English language learners from the at-risk count.

Colorado Preschool Program

Senate Bill 03-248 temporarily reduces the number of children who may participate in the Colorado Preschool Program from the currently authorized level of 11,050 to 9,050, the level authorized for FY 2000-01. The program is scheduled to return to 11,050 preschoolers in FY 2005-06. In addition, the bill removes preschoolers from the "regular" enrollment of the district, thereby pulling them out of the current averaging formula for determining the number of students for which a district receives funding.

Full-day Kindergarten

Senate Bill 03-248 addresses full-day kindergarten in three ways. First, it repeals the full-day kindergarten program for unsatisfactory schools, effective July 1, 2003. The pilot program was set to expire on July 1, 2006. The program, which was created in 2001 after the passage of Amendment 23, is serving approximately 1,200 pupils in FY 2002-03. Second, in conjunction with the reduction in the number of preschool slots, the bill reduces the full-day kindergarten component of the preschool program from 1,500 to 1,000 children for FY 2003-04 and beyond.

Third, the bill allows school districts to establish full-day kindergarten programs, subject to available funding from the federal "No Child Left Behind Act of 2001." Moneys used for this purpose are first to be used for unsatisfactory schools and secondly for low-performing schools.

On-line Students

In 2002, the General Assembly enacted a law that permitted the funding of 135 new students each year in on-line education programs. This limitation applied only to students who were not previously enrolled in public school, i.e., students in private school or a home-based education program. Senate Bill 03-248 repeals the funding for these students beginning in FY 2003-04. Students who enrolled in an on-line program in FY 2002-03 as a result of this option must be actively participating in the program on October 1 in any year to continue to be counted for funding purposes.

With regard to all other on-line students, the bill:

- limits students who can be counted for funding under the school finance act to those who were enrolled in a Colorado public school in the preceding year and who completed the assigned work and received a grade for at least one semester. Students who were enrolled in a private school or who participated in a home-based program or home instruction cannot be counted. The Department of Education may promulgate rules that exempt certain students from these requirements, such as habitually disruptive and at-risk students and students who move from other states or leave school for extraordinary reasons;
- requires that a school district's funding be adjusted to minimum per pupil funding for any student who is counted on the count date and transfers into an on-line program after the count date. When a student who transfers into an on-line program does not meet the requirements outlined in the first bullet, a district's funding is reduced by the full amount attributable to the student;
- requires a school district to provide information to an on-line program to verify that the student meets the on-line program enrollment requirements;
- requires that a student be actively participating in an on-line program on the count day in order to be counted;
- requires a student enrolled for a majority of the time in an on-line program to obtain permission from that program before enrolling in a course at a traditional public school. In addition, the bill allows an on-line program and a traditional public school to negotiate the payment of costs incurred when a student participates in a traditional public school course; and
- permits school districts to retain central administrative overhead costs for on-line students in charter schools.

Instructional Supplies and Materials and Capital Reserve/Risk Management

For FY 2003-04 only, Senate Bill 03-248 suspends the requirement that the minimum transfers for instructional supplies and materials and capital reserve/risk management increase by the same percentage as the base. The amounts remain at \$161 per pupil for instructional supplies and \$262 per pupil for capital reserve/risk management. Beginning with FY 2004-05, those amounts again increase by the increase in the base.

Cost-of-Living Study

Senate Bill 03-248 requires that the biennial cost-of-living study be funded from the school finance appropriation. The amount is capped by a footnote in the Long Bill at \$182,000 for FY 2003-04. School district funding is reduced proportionately to accommodate the cost of the study.

Public School Fund

Senate Bill 03-248 limits the amount of interest earnings that may be expended annually from the Public School Fund to \$19 million, beginning with FY 2003-04. Any interest earned on the fund above \$19 million remains in the fund and becomes part the fund's principal amount. Interest on the fund has traditionally been used as source of revenue for the school finance act.

Business Incentive Agreements

Senate Bill 03-248 eliminates a school district's ability to enter into business incentive agreements after the bill's effective date. The bill also limits the state backfill of school district revenues lost due to business incentive agreements to those agreements established prior to the bill's effective date. Finally, the requirement that the Colorado Economic Development Commission review business incentive agreements negotiated by the school districts is repealed.

FUNDING FOR CAPITAL CONSTRUCTION

Senate Bill 03-248 amends state law regarding funding for both school district and charter school capital construction. The result is a net decrease of \$1,081,094 in capital construction funding compared to current law, including a decrease of \$3,040,547 for charter schools and an increase of \$1,959,453 for school districts.

School Districts

State law on funding school district capital construction identifies three revenue sources: General Fund appropriations resulting from the *Giardino* lawsuit settlement, a State Education Fund appropriation, and lottery proceeds in years that lottery revenue exceeds a constitutional formula. Senate Bill 03-248 addresses the *Giardino* settlement and the State Education Fund appropriation.

Giardino settlement. State law requires the General Assembly to appropriate \$20 million from the General Fund in FY 2003-04 for school district capital construction if General Fund revenues exceed General Fund obligations by \$80 million. The \$20 million is split equally between the School Capital Construction Expenditures Reserve, which is dedicated primarily to immediate safety hazards and health concerns, and the School Construction and Renovation Fund. However, General Fund revenues are not expected to meet the standard set forth in the law; therefore no appropriation is required for FY 2003-04.

Senate Bill 03-248 appropriates \$10 million from the State Education Fund for school district capital construction in FY 2003-04: \$5 million for the School Capital Construction Expenditures Reserve and \$5 million for the School Construction and Renovation Fund.

State Education Fund. Senate Bill 03-248 suspends for FY 2003-04 the State Education Fund appropriation that was designed to match the State Education Fund appropriation for charter school capital construction. The match is scheduled to begin again in FY 2004-05. Once the match restarts, it will be limited to \$5 million annually. This appropriation for school district capital construction is deposited in the School Capital Construction Expenditures Reserve.

Charter Schools

State Education Fund Distributions. Beginning in FY 2003-04, any charter school—except those operating in state facilities—that has costs associated with constructing, demolishing, remodeling, financing, purchasing, or leasing land, buildings, or facilities receives a portion of the State Education Fund appropriation for charter school capital construction. Senate Bill 03-248 directs the General Assembly to appropriate \$5 million annually for this purpose, and each school's share of the \$5 million is based on its proportionate share of the number of students expected to be enrolled in charter schools statewide. As with current law, the "number of students expected to be enrolled" in charter schools is submitted to the Department of Education by the chartering district and then submitted to specified committees of the General Assembly by the February 1 preceding the budget year in which the money is distributed. A charter school is not eligible to receive capital construction funding for a pupil enrolled in an on-line program, and beginning with the distributions in FY 2004-05, each student in a charter school operating in a school district facility that has capital costs is counted as one-half student.

Eligibility for Other Capital Construction Money. Senate Bill 03-248 specifically permits charter schools with capital costs to apply for money in the School Capital Construction Expenditures Reserve. Money in this fund can only be used to address immediate safety hazards or health concerns within existing school facilities, to relieve excessive operating costs associated with capital issues, and to relieve building construction conditions that detract from an effective learning environment. This fund was created as a result of the *Giardino* lawsuit settlement.

For limited types of projects, Senate Bill 03-248 also permits a charter school to apply directly—rather than through its chartering district—to the Department of Education for a matching grant from the School Construction and Renovation Fund or a loan from the Public School Fund. The ability to apply directly is limited to capital construction projects that address safety hazards or health concerns at existing facilities.

CHARTER SCHOOLS

In addition to funding under the school finance act and capital construction, Senate Bill 03-248 makes a few other amendments pertaining to charter schools.

- With regard to **administrative costs**, the bill expands the definition of "central administrative overhead costs," which is the amount of funding districts may retain for charter school pupils, to include salaries and benefits for administrative job classifications listed under "Support Services - Business" (part of the 2500 series) and "Support Services - Central" (part of the 2800 series) in addition to "Support Services - General Administration" (the 2300 series).
- The bill sets charter school funding for **on-line students** at a minimum of 95 percent, rather than 100 percent, of minimum per pupil funding in districts with more than 500 pupils. A similar adjustment is made for districts with fewer than 500 pupils.

GRANT PROGRAMS

Senate Bill 03-248 amends provisions pertaining to funding boards of cooperative services, national credentialing of teachers, and the academic growth pilot program. In addition, it amends administrative provisions relating to grant applications.

Boards of Cooperative Services (BOCES)

Senate Bill 03-248 eliminates the cap on the number of BOCES, which is currently set at 22. It also makes the \$10,000 grant per board contingent upon available appropriations, and

allows the State Board of Education to prorate the distributions to boards if the appropriation is not sufficient to provide the full \$10,000 grant. The appropriation of \$210,000 from the General Fund for FY 2003-04 is eliminated.

In addition, it addresses how money allocated for grant applications can be used. Current law requires the Department of Education to allocate to the BOCES one percent of the amount appropriated for statutorily created educational grant programs, or \$250,000, whichever is less, to assist schools or school districts in applying for educational grant programs. Senate Bill 03-248 expands the uses of this money to include applying for grants other than those created by state law, such as federal grants.

Application for Grant Programs

Senate Bill 03-248 addresses information school districts or public schools must provide to the Department of Education when applying for educational grants. Current law prohibits the department from requiring districts to submit information for statutorily created education grant programs that has been submitted previously. Senate Bill 03-248 expands this reporting prohibition to include non-statutory programs.

National Credential Fee Assistance Program

The bill makes the appropriation for the National Credential Fee Assistance Program discretionary and eliminates the \$60,000 appropriation from the State Education Fund for FY 2003-04.

Academic Growth Pilot Program

Senate Bill 03-248 refinances the Academic Growth Pilot Program (longitudinal analysis) from the State Education Fund to the State Public School Fund. Funding from the State Public School Fund is to come from in-year cost recoveries occurring from the use of unique student identifiers. The amount allocated to the Academic Growth Pilot Program is not to exceed \$200,000 annually.

DEPARTMENT OF EDUCATION AND SCHOOL DISTRICT RESPONSIBILITIES

Senate Bill 03-248 makes a few changes with regard to reporting requirements of the Department of Education and school districts in addition to creating new responsibilities.

- It requires the State Board of Education to establish accreditation indicators for school district compliance with the **budgeting, accounting, and reporting** requirements contained in state law.
- It delays by one month, from December 15 to January 15, the date the Department of Education must deliver the annual **accountability report** for each public school. It reduces the amount of copies that must be printed from 125 percent of student enrollment plus teachers, to 100 percent. The General Fund appropriation for the administration of CSAPs is reduced by \$1.0 million as a result of the change.
- It prohibits a school district from discriminating against a nonpublic school participating in the **Colorado Opportunity Contract Pilot Program** in publicizing the educational opportunities available to students living within the district as long as the non-public school pays for its share of the publicity costs.

CONTINGENCY RESERVE

Senate Bill 03-248 appropriates an additional \$3.0 million from the General Fund to the State Public School Fund Contingency Reserve for FY 2002-03. The footnote attached to the appropriation states the General Assembly's intent that the moneys be allocated to the Denver Public Schools to mitigate the school district's property tax revenue loss due to United Airlines' bankruptcy.