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Legislative
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MEMORANDUM

June 19, 2009

TO: Members of the General Assembly
FROM: Todd Herreid, Chief Fiscal Officer, (303) 866-2633
SUBJECT: Financing of Public Schools for the 2009-10 Budget Year

Senate Bill 09-256 amends the Public School Finance Act of 1994 to provide funding for school districts for the 2009-10 budget year. Senate Bill 09-259, the "Long Bill," appropriates most of the money distributed to school districts. Highlights of funding provided to school districts by the two bills follows. This memorandum also contains a more detailed summary of Senate Bill 09-256 and a printout with estimates of school district funding for the upcoming school year. Senate Bill 09-256 was signed by the Governor on May 21, 2009.

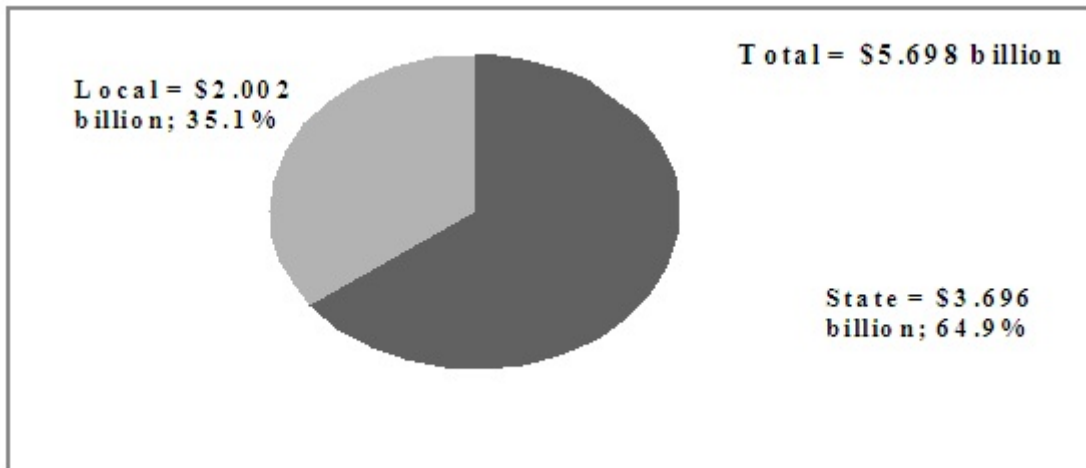
- ✍ The **school finance act** is expected to provide \$5.698 billion to school districts in the 2009-10 budget year. The state provides about 64.9 percent of this amount, or \$3.696 billion, while local property and specific ownership taxes provide the remainder.
- ✍ **School district funding** under the school finance act is expected to increase \$343 million, or about 6.4 percent, in the upcoming budget year. About 88 percent of this amount, or \$297 million, comes from state sources. The remaining \$46 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 5.0 percent, or \$146.5 million. 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 4.9 percent: 3.9 percent for inflation plus an additional percentage point as required by Amendment 23. The resulting base is \$5,507.68.

- ✎ The estimated increase in **average per pupil funding** is 5.0 percent. The statewide average per pupil funding is estimated to be \$7,225 in the 2009-10 budget year.
- ✎ In response to the state's **fiscal situation**, SB09-256 requires school districts and the Charter School Institute to budget a total of \$110 million into an emergency reserve account. Each district must set aside approximately 1.93 percent of its total program budget into the emergency reserve, which will become available for spending by districts on January 29, 2010, unless the General Assembly passes a law to enact a rescission of \$110 million.
- ✎ Senate Bill 09-256 **transfers \$2.0 million** from the Read-to-Achieve Cash Fund to the School Awards Program Fund (\$250,000) and the Closing the Achievement Gap Cash Fund (\$1.75 million).
- ✎ Senate Bill 09-256 appropriates \$55,706 from the General Fund to pay for a study on the feasibility of opening a **residential boarding school** for students who are at risk of academic failure and who need greater academic support.
- ✎ Senate Bill 09-256 increases each school district's **override limit** from 20 percent to 25 percent of total program funding. In addition, specific ownership taxes are no longer included in the override limit.

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 2009-10 budget year, the act is expected to provide \$5.698 billion to school districts. The state provides about 64.9 percent of this amount; the remaining 35.1 percent comes from local sources, as illustrated in Figure 1.

**Figure 1.
Sources of Money for the School Finance Act for Fiscal Year 2009-10**



The \$5.698 billion in total school finance funding is an increase of 6.4 percent, or \$343 million, over the current budget year. Some of this increase is attributable to growth in the number of pupils attending public schools. About 10,513 more pupils are expected to be funded next year, bringing the total to 788,648, an increase of almost 1.4 percent. A second contributor to the \$343 million is the increase in base per pupil funding required by Amendment 23—and implemented through Senate Bill 09-256—of inflation plus one percentage point.

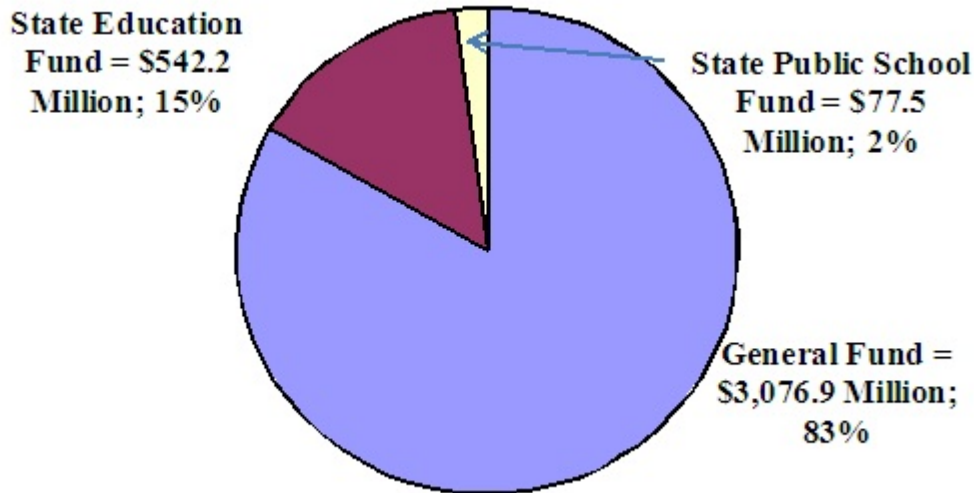
The increase in school district funding comes from a combination of state money and local taxes. Local taxes consist of property and specific ownership taxes. State aid provides the difference between a district's funding as allocated through the school finance act and the amount raised through local taxes. In the 2009-10 budget year, about 88 percent of the \$343 million increase in school district funding is provided by the state; the remaining amount is provided from local taxes. Figure 2 illustrates the components of the \$343 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 2009-10

Component	Total Funding Increase	State Aid	Local Taxes
Pupil count increase of 10,513	\$72,344,817		
Inflation plus one percent	\$270,983,839		
Total FY 2009-10 Increase	\$343,328,656	\$296,997,250	\$46,331,406

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 83 percent of the \$3.696 billion in state aid for school finance in the 2009-10 budget year. The State Education Fund provides the next largest share at 15 percent, while the State Public School Fund contributes the remaining two percent. The State Public School Fund consists of money earned on state school lands, interest earned on the Public School Fund, and federal mineral lease revenues that are dedicated by state law for public education. Figure 3 illustrates the proportions and amounts of money contributed by the three funds.

Figure 3
Sources of State Revenue for FY 2009-10 School Finance Appropriation



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 2009-10 budget year. Senate Bill 09-256 implements that requirement. Inflation for calendar year 2008 was 3.9 percent. Senate Bill 09-256 increases the statewide base by 4.9 percent, from \$5,250.41 in the current budget year to \$5,507.68 in 2009-10. 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 \$271.0 million to school districts next year.

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

- *Online per pupil funding.* The online per pupil funding amount is the amount provided to districts for students enrolled in online programs. It increases each year by the same percentage increase in the statewide base. The increase in the statewide base of 4.9 percent increases online per pupil funding from \$6,331 in the current budget year to \$6,641 in 2009-10.
- *Instructional supplies and materials; capital reserve/risk management.* Prior to SB09-256, the 4.9 percent increase in the statewide base would have increased the amount that would have

been allocated for instructional supplies and materials as well as the capital reserve/risk management. However, SB09-256 eliminated the requirement that districts set aside specific amounts of their budgets for instruction supplies, capital needs, and risk management.

CATEGORICAL PROGRAMS

Categorical programs provide funding for specific purposes or activities. Amendment 23 defines specific programs, including special education and transportation among others, as categorical programs and requires that total state funding for these programs increase by at least inflation plus one percentage point through 2010-11 and by inflation thereafter. For the most part, funding for categorical programs is contained in the Long Bill. Substantive changes to the administration of programs is contained in other legislation.

Beginning in 2008, the House and Senate Education Committees are allowed to submit a joint recommendation on the allocation of the Amendment 23 increase in categorical funding to the Joint Budget Committee for its consideration.

Figure 4 shows the 2009-10 state appropriation for the Amendment 23 categorical programs. It also includes the dollar and percent change in the appropriation from the previous budget year. Some of these programs, such as special education and English language proficiency, receive federal funds in addition to the amounts shown in the table.

Figure 4
FY 2009-10 Appropriations for Categorical Programs

Categorical Program	FY 2009-10 Appropriation	Dollar Change	Percent Change
Special Education - Children with Disabilities	\$127,362,125	\$0	0.0%
English Language Proficiency	\$12,121,200	\$3,509,143	40.7%
Transportation	\$49,209,638	\$3,800,796	8.4%
Gifted and Talented	\$9,003,120	\$607,021	7.2%
Small Attendance Centers	\$959,379	\$16,046	1.7%
Expelled and At-Risk Student Services	\$7,343,560	\$1,002,884	15.8%
Vocational Education	\$23,189,191	\$1,516,719	7.0%
Comprehensive Health Education	\$1,005,396	\$300,000	42.5%
Total	\$230,193,609	\$10,752,609	4.9%

MISCELLANEOUS PROVISIONS OF THE SCHOOL FINANCE BILL

The remaining provisions of Senate Bill 09-256 address a variety of issues, summarized in the following bullet points:

- School districts are required to return any unspent money received for full-day kindergarten in FY 2008-09 prior to the end of the fiscal year.
- Every student enrolled in sixth grade must register with “CollegeinColorado.org,” and prior to the start of ninth grade each student must submit an individual career and academic plan with the school district in which they are enrolled.
- SB09-256 allows school districts to designate real property as all or a portion of their required TABOR reserve.
- One-half of the increase in the appropriation for the Expelled and At-Risk Student Services Grant Program must go to applicants that will reduce the number of truancy cases requiring court involvement.