



Colorado  
Legislative  
Council  
Staff

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

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MEMORANDUM

January 6, 2011

**TO:** Members of the General Assembly

**FROM:** Marc Carey, Economist, (303) 866-4102

**SUBJECT:** Financing of Public Schools for the 2010-11 Budget Year

House Bill 10-1369 amends the Public School Finance Act of 1994 to provide funding for school districts for the 2010-11 budget year. House Bill 10-1376, 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 House Bill 10-1369 and a printout with estimates of school district funding for the upcoming school year. House Bill 10-1369 was signed by the Governor on May 21, 2010.

- ✍ The **school finance act** is expected to provide \$5.442 billion to school districts in the 2010-11 budget year. The state provides about 62.5 percent of this amount, or \$3.399 billion, while local property and specific ownership taxes were projected to provide the remainder.
- ✍ **School district funding** under the school finance act is expected to decrease \$145 million in the upcoming budget year, a decrease of 2.6 percent. Based on projections of school district property taxes, about 82 percent of the decrease in funding, or \$119 million, is expected to come from state sources. This decrease is accomplished through the addition of a new "budget stabilization factor" to the school finance formula. The remaining \$27 million decrease is estimated to come from local property and specific ownership taxes. However, based on the actual assessed values certified in school districts, local property and specific ownership taxes will fall by \$50 million, which will require the General Assembly to resolve whether or not state aid will make up the \$23 million difference.
- ✍ The **General Fund increase** for school finance, sometimes called the maintenance of effort (MOE), requires the General Fund appropriation for school finance to increase by at least 5 percent when Colorado personal income

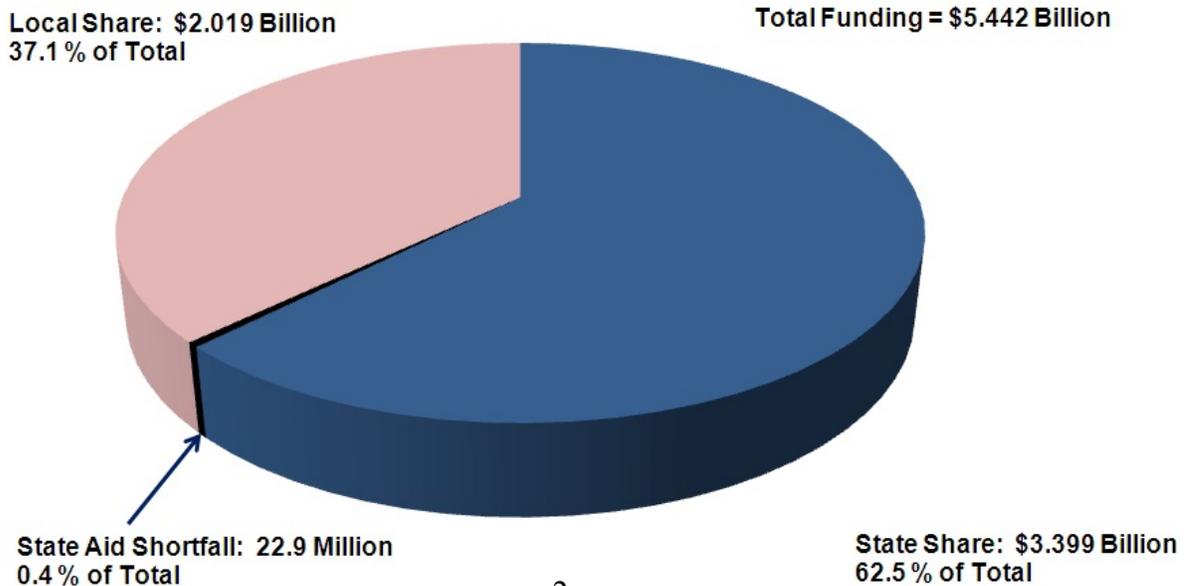
grows by 4.5 percent or more. There is no MOE requirement in FY 2010-11 as personal income declined.

- ✎ The increase in the **base per pupil funding** reflects a -0.6 percent inflation rate plus one percent as required by Amendment 23. The resulting base per pupil amount is \$5,529.71, which is 0.4 percent higher than the prior year's level.
- ✎ The estimated **decrease** in **average per pupil funding** is 3.7 percent. The statewide average per pupil funding is estimated to be \$6,813 in the 2010-11 budget year.
- ✎ House Bill 10-1369 specifies that the eight districts that do not receive enough state aid to fully implement the 6.6 percent funding reduction specified by the budget stabilization factor lose whatever state aid they do receive. In addition, these districts are required to use their total program mill levy to buy down the state support they receive for categorical programs.
- ✎ House Bill 10-1369 specifies that, beginning in FY 2010-11, district pupil counts will not include pupils that were enrolled in charter schools converted to institute charter schools after July 1, 2010.

### 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 FY 2010-11, the act is expected to provide \$5.442 billion to school districts. The state currently provides about 62.5 percent of this amount while local sources provide 37.1 percent. The larger decrease in the local contribution has left a \$23 million funding shortfall in the current budget year. Figure 1 presents the relative shares for state and local funding under House Bill 10-1369.

**Figure 1**  
**Sources of Money for the School Finance Act in Fiscal Year 2010-11**



The \$5.442 billion in total school finance funding includes a budget stabilization factor of 6.6 percent, and represents a funding decrease of \$381.2 million, compared with the funding requirements of current law. This decrease, however, is to be implemented at the same time as the number of pupils attending public schools is growing. About 9,262 more pupils are expected to be funded next year, bringing the total to 798,677, an increase of 1.2 percent. The increased pupil count, at an average per pupil funding level of \$6,813 per pupil, partially offsets the decrease from the budget stabilization factor. A second offsetting factor is the requirement of Amendment 23 that base per pupil funding increase by inflation plus one percent, which implies an increase of 0.4 percent (- 0.6 percent inflation plus 1 percent). Table 1 breaks out the components of the overall funding decrease enacted through the 2010 School Finance Act.

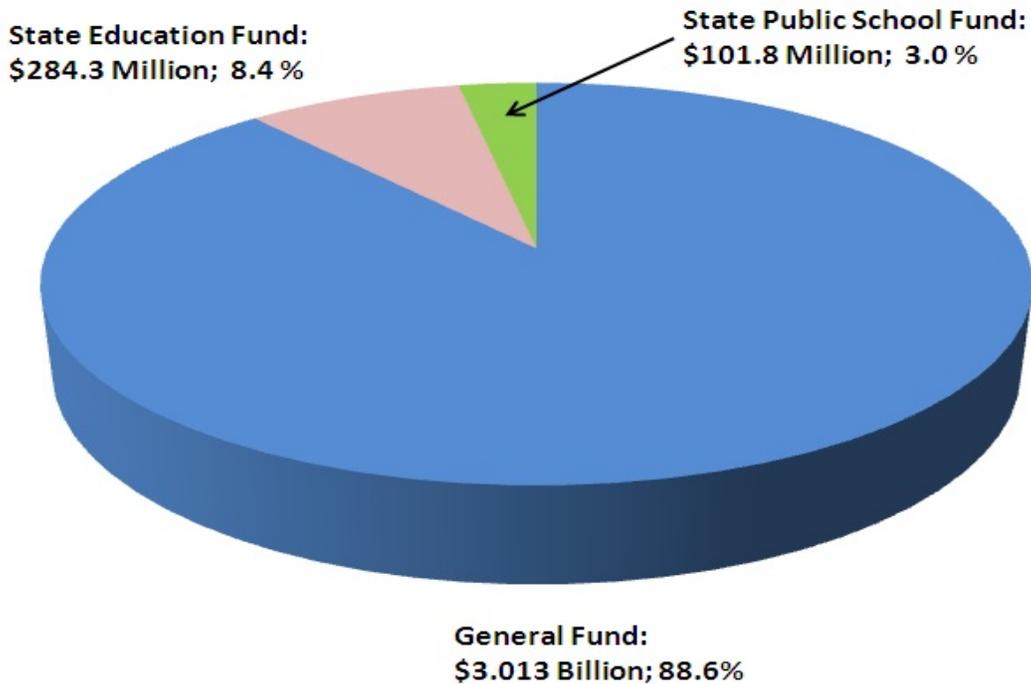
**Table 1**  
**Components of School Finance Act Funding Change in FY 2010-11**

Component	Total Funding Change	State Aid Shortfall	State Aid Appropriated	Local Taxes
<b>Current Law</b>				
Budget Stabilization Factor	(\$381,211,101)			
Pupil count increase of 9,262 pupils	\$65,549,284			
Inflation plus one percent plus other factors	\$170,336,158			
Total FY 2010-11 decrease	(\$145,325,658)	\$22,982,922	(\$118,442,705)	(\$49,865,875)

School district funding includes both 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 2010-11 budget year, about 81 percent of the \$145 million decrease in school district funding is provided through a reduction in state aid; the remainder is provided through a reduction in local taxes. There is also a potential shortfall in state aid of \$23 million, which the General Assembly will have to address in the upcoming session.

***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 88.6 percent of the \$3.4 billion in state aid for school finance in the 2010-11 budget year. The State Education Fund provides the next largest share at 8.4 percent, while the State Public School Fund contributes the remaining 3.0 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 2 illustrates the proportions and amounts of money contributed by the three funds.

**Figure 2**  
**Sources of Revenue for FY 2010-11 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 2010-11 budget year. House Bill 10-1369 implements that requirement. Inflation for calendar year 2009 was -0.6 percent. House Bill 10-1369 increases the statewide base by 0.4 percent, from \$5,507.68 in the current budget year to \$5,529.71 in 2010-11. 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 \$17.6 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 0.4 percent increases online per pupil funding from \$6,641 in the current budget year to \$6,668 in 2010-11. However, the application of the budget stabilization factor reduces on-line per pupil funding to \$6,228 in 2010-11.

## LOW STATE AID DISTRICTS

Eight school districts do not receive enough state aid to fully implement the 6.6 percent reduction in total program funding. As a result, the total program cuts for those districts will be proportionately smaller — equal to the amount of state aid that the district currently receives. However, the reduction in state aid for these districts will be supplemented by the use of each district's total program mill levy to buy down some of the state aid the district receives for categorical programs. The total funding change to these eight districts, loss of state aid combined with the total program mill levy reduction, is illustrated in Table 2.

**Table 2**  
**HB10-1369 Impact for Districts with Less Than 6.6 Percent State Aid for Total Program**

County	District	State Aid for Total Program	Total Program Mill Levy Categorical Buydown	State Funding for Categorical Programs	Total State Funding Change	% Change in State Funding
Clear Creek	Clear Creek	(\$235)	\$0	\$0	(\$235)	(0.00%)
Grand	West Grand	(\$259)	\$0	\$0	(\$259)	(0.01%)
Gunnison	Gunnison	(\$821,675)	\$9,765	(\$9,765)	(\$831,440)	(6.60%)
Rio Blanco	Meeker	(\$736)	\$0	\$0	(\$736)	(0.02%)
Park	Park	(\$88)	\$273,408	(\$273,408)	(\$273,496)	(6.19%)
Pitkin	Aspen	(\$213,026)	\$322,651	(\$322,651)	(\$535,677)	(3.45%)
Routt	South Routt	(\$25,529)	\$181,505	(\$181,505)	(\$207,034)	(5.72%)
Summit	Summit	(\$521,628)	\$752,299	(\$752,299)	(\$1,273,927)	(5.73%)
<b>TOTAL</b>		<b>(\$1,583,176)</b>	<b>\$1,539,628</b>	<b>(\$1,539,628)</b>	<b>(\$3,122,804)</b>	<b>(4.18%)</b>

## 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. Generally, funding for categorical programs is contained in the long bill. Substantive changes to the administration of categorical programs is contained in other legislation.

Senate Bill 07-199 permits the House and Senate Education Committees to submit a joint recommendation, beginning in 2008, on the allocation of the Amendment 23 increase in categorical funding to the Joint Budget Committee for its consideration. Regarding special education, the bill:

- ensures that administrative units are eligible for funding from the high-cost grant program for children they serve, regardless of a child's district of residence; and
- prioritizes the allocation of money from the high-cost grant program so that it is first distributed to administrative units that have children who have been placed outside the unit for special education services.

Table 3 shows the FY 2010-11 state appropriation for the Amendment 23 categorical programs. It also includes the dollar and percent change in the appropriation from FY 2009-10. Note that some of these programs, such as special education and English language proficiency, receive federal funds in addition to the amounts shown in the table.

**Table 3  
FY 2010-11 Appropriations for Categorical Programs**

<b>Categorical Program</b>	<b>FY 2010-11 Appropriation</b>	<b>Dollar Change</b>	<b>Percent Change</b>
Special Education - Children with Disabilities	\$127,362,125	\$0	0.0%
English Language Proficiency	\$12,396,353	\$275,153	2.3%
Transportation	\$49,991,821	\$782,183	1.6%
Gifted and Talented	\$9,059,625	\$56,505	0.6%
Small Attendance Centers	\$959,379	\$0	0.0%
Expelled and At-Risk Student Services	\$7,493,560	\$150,000	2.0%
Vocational Education	\$23,296,124	\$106,933	0.5%
Comprehensive Health Education	\$1,005,396	\$0	0.0%
<b>Total</b>	<b>\$231,564,383</b>	<b>\$1,370,774</b>	<b>0.6%</b>

**MISCELLANEOUS PROVISIONS OF THE SCHOOL FINANCE BILL**

The remaining provisions of House Bill 10-1369 address a wide variety of issues, summarized in the following bullet points.

- The FY 2010-11 Long Bill will include an appropriation of \$17,900,000 from the State Education Fund for facility school funding. This appropriation assumes a payment of \$41.20 per day for 434,466 child-days, based on the total program amount under current law. Because House Bill 10-1369 reduces total program, the per day payment rate will fall to \$38.62, and the facility school funding line item will decrease by \$1,120,923 from the State Education Fund.

- The FY 2010-11 Long Bill will include an appropriation of \$1,362,690 reappropriated funds for the operation of the Colorado School of the Deaf and Blind (CSDB). This amount represents a transfer from the Facility Schools Funding line item. Because House Bill10-1369 decreases this line item, the transfer to the CSDB will also decrease by \$85,334 (33,075 child days \* (\$41.20-\$38.62) = \$85,334). The General Fund appropriation for school operations will need to increase by this amount, as the General Fund supports any costs not supported by this transfer.
- The FY 2010-11 Long Bill will include an appropriation of \$214,611 reappropriated funds for the educational programs at the Mental Health Institutes (MHIs), in the Department of Human Services. This amount represents a transfer from the Facility Schools Funding line item. Because House Bill10-1369 decreases this line item, the transfer to the MHIs will also decrease by \$13,439 (5,209 child days \* (\$41.20-\$38.62) = \$13,439). The General Fund appropriation for these educational programs will need to increase by this amount, as the General Fund supports any costs not supported by this transfer.
- For FY 2010-11 and thereafter, the bill requires that the first \$11 million of interest earned on investment of moneys in the Public School Fund be transferred to the State Public School Fund. The bill also eliminates a similar requirement for money received from timber sales and rental payments on public school lands. While the net amount of money transferred between the funds is unchanged, this bill swaps \$11 million in timber sales and rental payments for \$11 million in interest earnings.