

State Funding — K-12 and Higher Education

K-12 Education

Department Overview. The General Assembly is constitutionally required to "provide for the establishment and maintenance of a thorough and uniform system of free public schools throughout the state". At the same time, the State Constitution vests control of public school instruction in the local boards of education. The General Assembly thus provides financial support and establishes statutory requirements applicable to all school districts, and school districts determine curriculum and instruction.

The Commissioner of Education and Colorado Department of Education (CDE) staff support the elected members of the *State Board of Education* in their constitutional duty to exercise *general supervision over public schools*, including accrediting public schools and school districts. Under current law, this supervision includes developing and maintaining state model content standards, administering the associated Colorado student assessment program (CSAP), and issuing annual accountability reports for every public school. Under the Commissioner of Education the CDE provides districts with leadership, consultation, and administrative services on a statewide and regional basis. The CDE also has the following responsibilities:

- administering the public school finance and public school transportation programs;
- administering education-related programs, including services for children with special needs and for English language learners, the Colorado preschool program, capital construction assistance programs, adult basic education programs, and various state and federal grant programs;
- supporting the State Board of Education in reviewing requests from school districts for waivers of state laws and regulations and in serving as the appellate body for charter schools; and
- licensing educators.

CDE staff, under the direction of the *State Librarian*, are charged with promoting the improvement of library services statewide to *ensure equal access to information*, including providing library services to persons who reside in state-funded institutions and persons who are blind and physically disabled.

The CDE also includes three independent agencies:

- a nine-member *State Charter School Institute* Board that is responsible for authorizing and monitoring the operations of "institute charter schools" located within certain school districts;
- a seven-member Board of Trustees that is responsible for managing the *Colorado School for the Deaf and the Blind*, located in Colorado Springs; and

- A nine-member *Public School Capital Construction Assistance Board* that is responsible for assessing public school capital construction needs statewide and making recommendations concerning the prioritization and allocation of state financial assistance for school construction projects.

Population Served and Primary Services Provided. In FY 2011-12, 178 school districts provided educational services to approximately 854,000 children and youth, ages three through 21. The racial profile of students was as follows: 56.1 percent white; 31.9 percent Hispanic; 4.8 percent black; 3.1 percent Asian; 0.8 percent American Indian; and 0.2 percent Hawaiian/Pacific Islander. An additional 3.1 percent of students identified as two or more races. More than one in three students were eligible for free lunch services, 14 percent were English language learners, and nearly 10 percent received special education services due to a disability.

School districts ranged in size from 9 students (Elbert - Agate) to over 85,000 (Jeffco). A majority of districts (109) educated fewer than 1,000 students each, while the largest 20 districts educated more than three-quarters of students statewide. Although the number of students statewide increased by 1.3 percent from FY 2010-11 to FY 2011-12, about half of school districts (91) experienced a decline in their enrollment.

The CDE licensed 37,419 educators in FY 2011-12, and issued 9,910 new licenses.

The Colorado School for the Deaf and the Blind provides educational services to children across the state who are deaf or hard-of-hearing and/or blind or vision-impaired. These services include in-home support for children under age five and their families (a total of 345 children in FY 2011-12), educational services for eligible children and youth who live near the school (116 in FY 2011-12), and educational and residential services for children and youth who travel to the school each week, returning home on the weekends (86 in FY 2011-12).

Factors Driving the Budget - School Finance. To meet its requirement to provide a thorough and uniform system of free public schools, the General Assembly has enacted a public school finance system under which all school districts operate. The state contribution to this system is the largest single item in Colorado's General Fund budget, accounting for 37.7 percent of General Fund appropriations in the current fiscal year (FY 2012-13). During the 2012 legislative session, the General Assembly appropriated \$3.4 billion dollars for the state's share of public school finance, \$2.9 billion of which came from the General Fund. School district revenue also helps fund the school finance act, providing another \$1.9 billion for a combined total of \$5.3 billion. Additionally, the General Assembly appropriated \$163 million in state General Fund for other K-12 education-related purposes, bringing the total share of the General Fund budget for K-12 education to 39.8 percent in the current year.

The \$5.3 billion in state and local school finance money is allocated to school districts through a formula contained in law called the *Public School Finance Act of 1994*. The formula takes into consideration the individual characteristics of school districts so as to equalize funding among the various school districts and thereby provide thorough and uniform educational opportunities throughout the state. This formula calculates a per pupil funding level, as well as the state and local share, for each district.

The calculation of each district's per pupil funding starts with the *statewide base per pupil funding* amount, which is set annually by the General Assembly. The statewide base for the

current budget year is \$5,843. Amendment 23¹ required this amount to increase by at least inflation plus one percentage point every fiscal year through 2010-11 and requires increases by at least the rate of inflation each fiscal year thereafter. As its name implies, the statewide base is a per pupil amount provided for every pupil who is funded in public schools. It drives \$4.8 billion, or 90.3 percent, of the \$5.3 billion in district funding statewide in FY 2012-13.

The remaining 9.7 percent of school district funding—\$0.5 billion—is driven by adjustments to the base and funding additions that recognize the individual characteristics of school districts. These adjustments and additions produce variations in school districts' per pupil funding levels. For the current budget year, district funding is anticipated to range from a low of \$6,059 per pupil to a high of \$15,099 per pupil, with an average of \$6,474. These adjustments include the following:

- a *cost-of-living* adjustment to recognize that the cost of living in a community affects the salaries required to hire and retain qualified personnel;
- a *size* adjustment to compensate districts lacking enrollment-based economies of scale (i.e., the smallest school districts receive the greatest increase in funding); and
- additional funding is also provided for students who may be *at risk* of failing or dropping out of school. For funding purposes, at-risk students are defined as students from low-income families as measured by eligibility for free lunches under the National School Lunch Act and students who do not speak English.

In addition, the school finance formula requires a *minimum level of per-pupil funding* (\$6,141 per pupil for FY 2012-13²), regardless of the impact of the above factors. For FY 2012-13, 14 districts are anticipated to receive funding based on this minimum level of per-pupil funding. The School Finance Act also provides a *fixed amount of funding per pupil* (established at \$5,911³ for FY 2012-13) *for two types of students*:

- Students receiving full-time, on-line instruction through a multi-district program; and
- Students in their fifth year of high school who are participating in the Accelerating Students Through Concurrent Enrollment (ASCENT) Program.

Finally, since FY 2010-11 the formula has included a *negative factor* designed to reduce districts' total program funding to a specified total amount. For FY 2012-13, this factor is estimated to be -16.1 percent, requiring a \$1.0 billion reduction in total program funding. Thus, the Department will calculate total program funding for each district based on the formula described above, and then reduce each district's total program funding by 16.1 percent⁴. Because the General Assembly cannot decrease base per-pupil funding, this new factor has the effect of reducing the funding attributed to the other formula factors, as illustrated in the graphic on the next page.

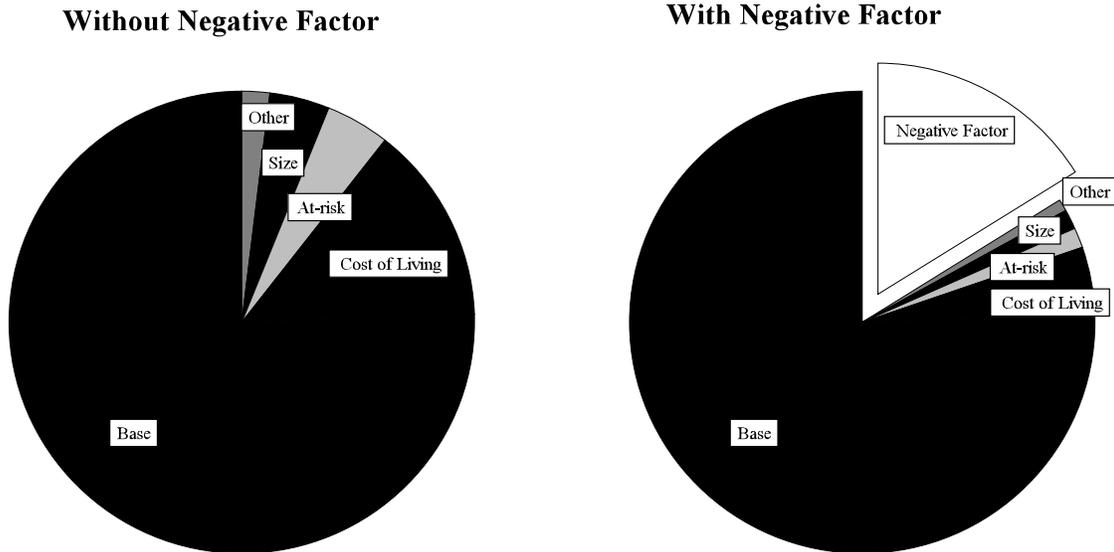
¹Amendment 23, passed by voters in 2000, added Section 17 to Article IX of the Colorado Constitution.

² This amount is calculated after the application of the negative factor (discussed in the next paragraph).

³ This amount is calculated after the application of the negative factor (discussed in the next paragraph).

⁴ Please note that for some districts, this reduction exceeds the state share of total program funding. In this case, the reduction in total program funding is limited to the state share of funding.

Total Program Funding by Component: FY 2012-13



Local property and specific ownership taxes provide the first source of revenue for school district funding, and state funding provides the difference between available local revenues and a district's total funding. For example, of the \$5.3 billion in total revenue received by school districts through the finance act in the current budget year, local taxes will contribute about \$1.9 billion, or 36.4 percent of the total. The state, through appropriations made by the General Assembly, provides the remaining \$3.4 billion of total funding, mostly from General Fund dollars.

Limitations on increases in district property taxes resulted in the state paying an increasingly greater share of funding through the finance act. These limitations were compounded by the fact that, under Amendment 23, school finance funding has grown at a greater rate than property taxes are permitted to grow. In FY 1994-95, when the existing School Finance Act was adopted, the state paid 54.3 percent of the cost of the Act. The state share of funding has increased over time. Due to the passage of SB 07-199, the state share of funding has stabilized and remains at about 64 percent.

In response to budgetary pressures, the General Assembly modified the statutory school finance formula in the 2010 session, significantly reducing school finance costs. This modification, originally termed the "budget stabilization factor" and then renamed as the "negative factor," reduces school finance funding to a total amount specified in statute each year. The following table compares "full funding" with and without the negative factor for each year from FY 2010-11 through FY 2012-13, including the reduction in statewide average per pupil funding for each year.

The Governor's budget request for FY 2013-14 proposes a \$196.0 million increase in *state funding* for school finance (5.8 percent). The proposed increase would be sufficient to increase *average per pupil revenue* by the projected rate of inflation and reduce the negative factor from 16.1 percent of total program funding to 15.5 percent (although the dollar amount of the negative factor remains constant at the FY 2012-13 enacted level of \$1.0 billion. Based on the Department's anticipated pupil counts, average per pupil funding would increase from \$6,474 in FY 2012-13 to

\$6,659 in FY 2013-14. In the 2013 Session, the General Assembly will determine the level of funding for public school finance for FY 2013-14.

Factors Driving the Budget - Categorical Programs. Programs designed to serve particular groups of students (e.g., students with limited proficiency in English) or particular student needs (e.g., transportation) have traditionally been referred to as "categorical" programs. Unlike public school finance funding, there is no legal requirement that the General Assembly increase funding commensurate with the number of students eligible for any particular categorical program. However, Section 17 of Article IX of the Colorado Constitution requires the General Assembly to increase total state funding for all categorical programs annually by at least the rate of inflation plus one percent for FY 2001-02 through FY 2010-11, and by at least the rate of inflation for subsequent fiscal years. For example, in calendar year 2011 the percentage change in the Denver-Boulder consumer price index was 3.7 percent, so the General Assembly was required to increase state funding for categorical programs by at least that amount (\$8,713,706) for FY 2012-13.

The General Assembly determines on an annual basis how to allocate the required increase among the various categorical programs. Since FY 2000-01, the General Assembly has increased annual state funding for categorical programs by \$102.1 million. In certain fiscal years, the General Assembly elected to increase state funding by more than the minimum constitutionally required amount, resulting in appropriations that are now \$36.6 million higher than the minimum amount that would have otherwise been required. The following table details the allocation of the \$102.1 million among categorical programs.

Increases in State Funding for Categorical Programs

Increases in State Funding for Categorical Programs Since FY 2000-01				
Long Bill Line Item	FY 2000-01 Appropriation	FY 2012-13 Appropriation	Total Increase in Annual Appropriation of State Funds Since FY 2000-01	
Special education - children with disabilities	\$71,510,773	\$134,641,941	\$63,131,168	88.3%
English Language Proficiency Program	3,101,598	14,460,255	11,358,657	366.2%
Public school transportation	36,922,227	51,967,107	15,044,880	40.7%
Career and technical education programs	17,792,850	24,218,018	6,425,168	36.1%
Special education - gifted and talented children	5,500,000	9,473,606	3,973,606	72.2%
Expelled and at-risk student services grant program	5,788,807	7,493,560	1,704,753	29.4%
Small attendance center aid	948,140	959,379	11,239	1.2%
Comprehensive health education	600,000	1,005,396	405,396	67.6%
Total	\$142,164,395	\$244,219,262	\$102,054,867	71.8%

FY 2012-13 Appropriation -- Other Programs. Approximately \$613 million (14 percent) is appropriated to the CDE for FY 2012-13 for purposes other than school finance, categorical programs, and facility school funding. Of this amount, \$458.6 million (75 percent) is appropriated from federal funds, \$41.4 million (7 percent) is appropriated from the State Education Fund, \$21.4 million (3 percent) is appropriated from the General Fund, and the remainder from various

cash funds and transfers. The largest ongoing appropriation from the State Education Fund is for the Colorado Student Assessment Program (\$16 million). The largest appropriation of General Fund is to the School for the Deaf and Blind (\$10 million). The following table provides an abbreviated list of some other programs and activities supported by state and federal moneys appropriated to the CDE.

Program	Appropriation
Appropriated Federal Sponsored Programs	\$275,000,000
Health and Nutrition	161,646,340
Assessments and Data Analyses	51,636,123
Capital Construction	50,924,831
Various Other Programs	14,749,061
Department Management and Administration	14,444,487
Colorado School for the Deaf and Blind	14,407,929
State Charter School Institute	10,475,286
Library Programs	7,051,301
Reading and Literacy (Early Literacy Program)	5,411,989
Professional Development and Support	4,046,608
Information Technology	3,538,476
Total	\$613,332,431

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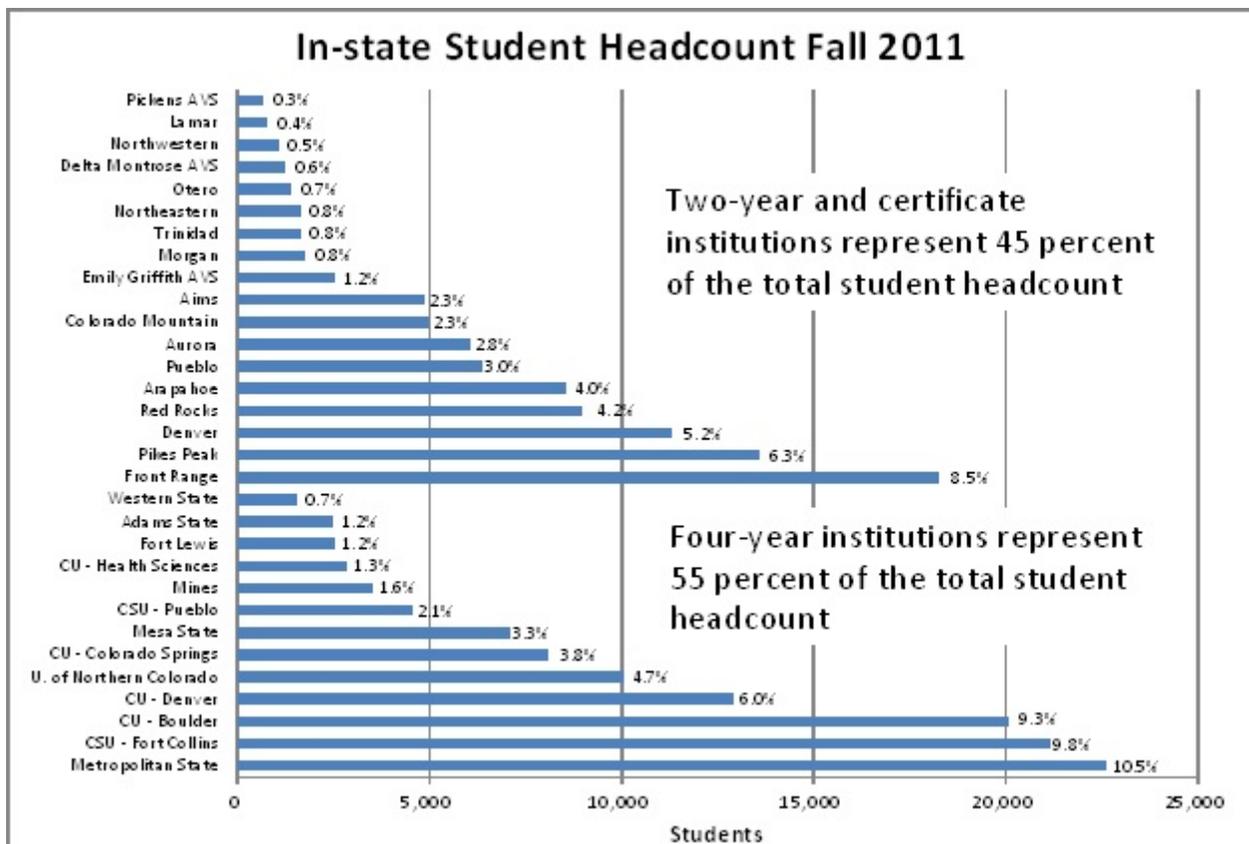
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Higher Education

Overview and Organization. The public higher education system serves roughly 210,000 students from Colorado annually. Approximately 45 percent of the students attend 2-year and certificate institutions. These include state-operated community colleges, local district junior colleges that receive regional property tax revenues in addition to state funding, and area vocational schools that offer occupational certificates and serve both secondary and post-secondary students. Students attending institutions that offer baccalaureate and higher degrees are concentrated at the University of Colorado, Colorado State University, and Metropolitan State University of Denver.

The Colorado Commission on Higher Education (CCHE) serves as the central policy and coordinating board for the Department of Higher Education. The Commission is responsible for negotiating performance contracts with public higher education institutions. Financial aid programs also fall under the purview of the CCHE. In addition, the CCHE coordinates the higher education delivery system, including requests for state funding. The CCHE has some regulatory authority over the public higher education institutions in areas such as role and mission, degree programs, the transfer of credits, and performance reporting. However, each institution has a governing board that makes policy and budget decisions for the institution.

The General Assembly has delegated significant budgetary control to the governing boards of the higher education institutions. The members of the governing boards are appointed by the Governor, except at the University of Colorado, which has an elected Board of Regents. Within broad parameters the governing boards are allowed to determine how to spend the revenue they earn, and they can retain unspent funds at the end of each fiscal year for future initiatives.



Individual versus public responsibility for funding higher education. A key factor driving the budget for the Department of Higher Education is how much policy makers view paying for higher education as an individual versus public responsibility. Opinions vary on when the cost of higher education represents a hardship for students, and to what extent the State has an obligation, if any, to alleviate that hardship in order to provide opportunity and access for students seeking a higher education. There are no statutes, constitutional provisions, or federal guidelines requiring specific amounts of state funding per student.

In addition to any state responsibility to provide opportunity and access, there are perceived public benefits from encouraging higher education. An educated populous may attract businesses and cultural resources to the community, and it is associated with higher wages, and lower unemployment and dependence on public resources. It may also be part of strategies to fill unmet needs in the community, such as nurses or teachers or engineers. Subsidizing higher education is frequently described as a form of economic development for the community.

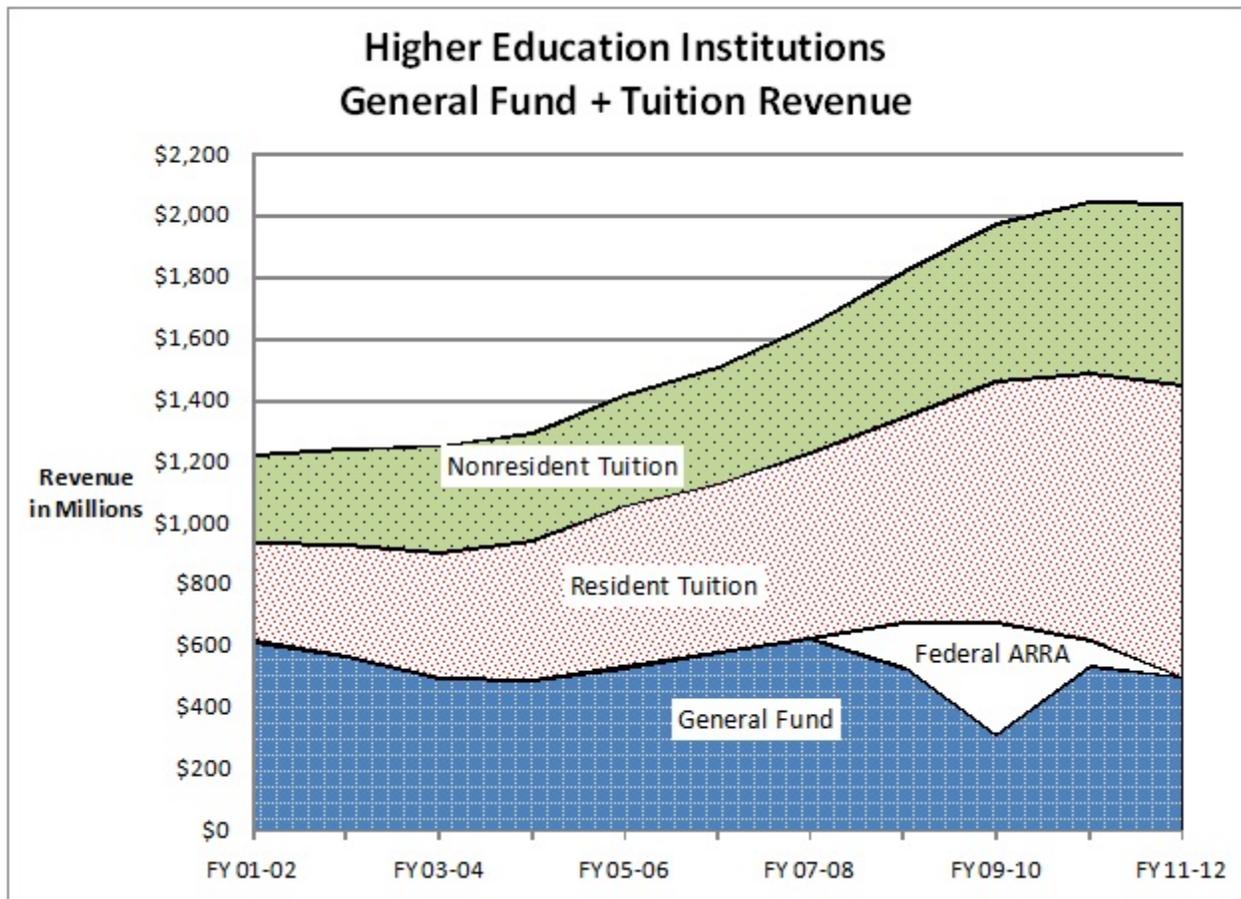
Perceptions about the individual versus public responsibility for higher education can change based on the quality and level of education a student seeks. Students wanting more than just the basics may be expected to contribute more to the cost of their education, but this gets balanced against concerns about relegating low-income students to basic skills institutions. Students pursuing high demand degrees who are projected to earn significant amounts upon graduation may be expected to contribute more to their education, but this may get balanced against economic development goals of encouraging more students in a profession.

Impact of the statewide budget outlook. Statewide General Fund revenues significantly impact higher education appropriations, as evidenced by the sharp declines in General Fund appropriations for higher education during economic downturns in FY 2002-03 through FY 2004-05, and again in FY 2008-09 through FY 2011-12. The decreases in General Fund appropriations for higher education were disproportionately larger than decreases for other state agencies during the same time frames because higher education funding is more discretionary.

The availability of alternative fund sources for higher education may partly explain the disproportionate reductions for higher education. During these years tuition charges increased significantly, and from FY 2008-09 through FY 2010-11 federal money available through the American Recovery and Reinvestment Act of 2009 (ARRA) was used to offset General Fund reductions.

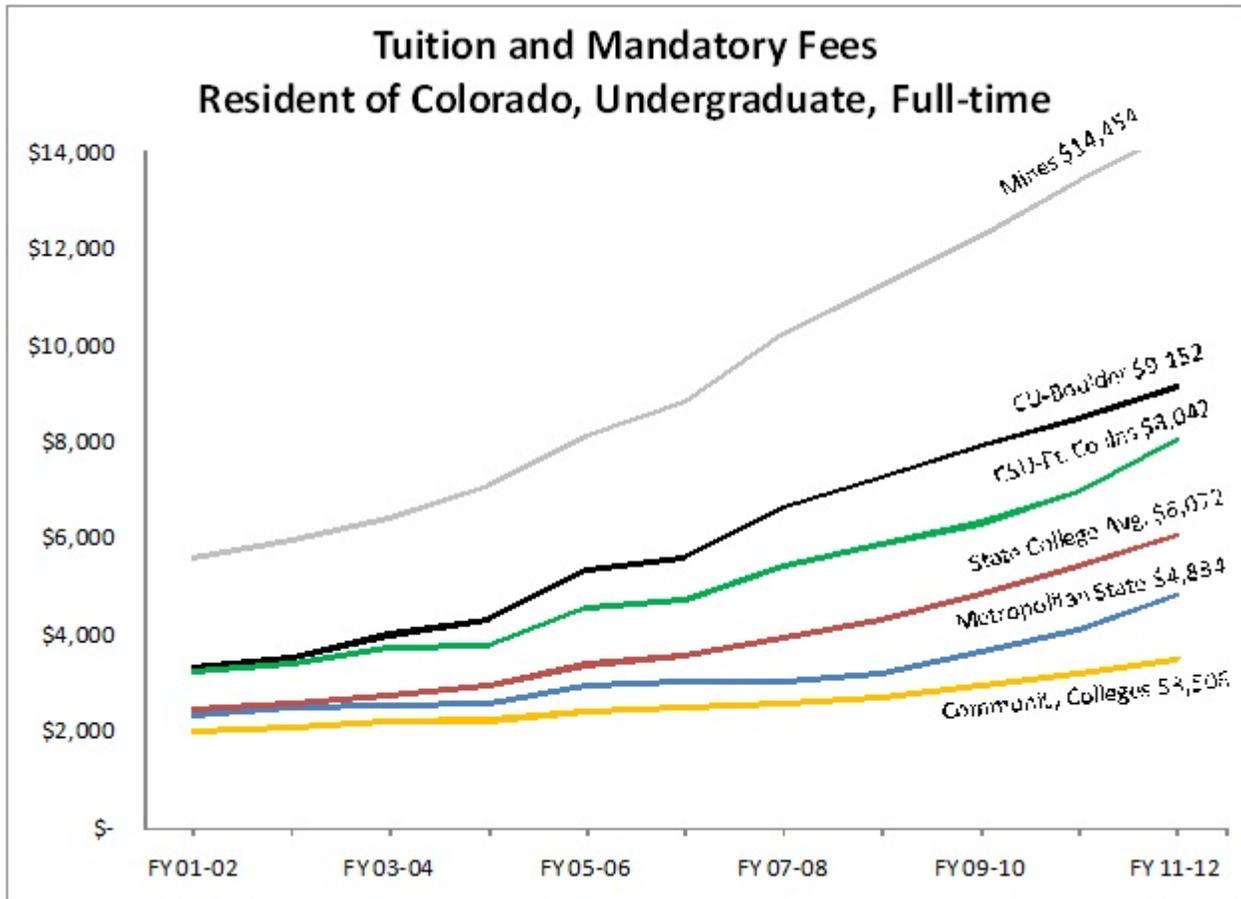
As a condition of accepting the ARRA federal funds for education, the federal government required states to maintain at least the FY 2005-06 General Fund appropriation level for higher education institutions through FY 2010-11. In FY 2009-10, Colorado qualified for a waiver from this maintenance of effort requirement, but not in FY 2010-11. This explains the sharp decrease and subsequent restoration of General Fund in FY 2009-10 and FY 2010-11.

The following chart illustrates how federal ARRA funds and tuition augment General Fund revenues for the higher education institutions, and may provide a portion of the explanation for why higher education has historically been such a big part of budget balancing efforts in Colorado and other states during recessions. It should be noted that the chart does not include adjustments for changes in the number of students served, inflationary factors impacting the cost of providing services, or analysis of whether resources are being used optimally by the higher education institutions. Therefore, the chart is not intended to draw conclusions about the adequacy of General Fund and tuition resources. It is fair, however, to observe from the chart that increases in tuition and decreases in General Fund have transferred more of the burden for funding higher education from state tax revenues to students and their families.



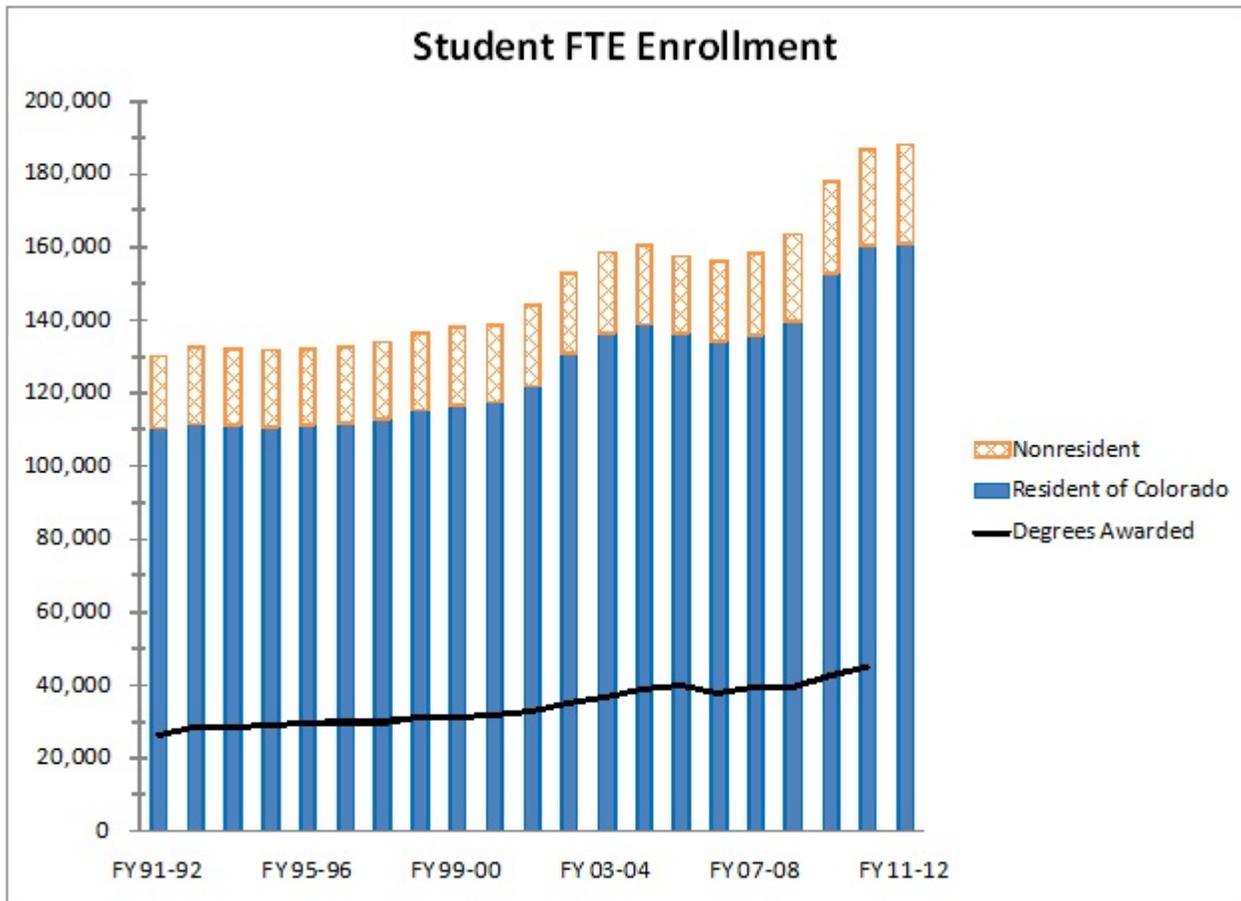
Tuition and Fees. Tuition and fee rates are a central consideration in discussions about access and affordability. Projected tuition and fee revenue for the governing boards influences legislative decisions about how much General Fund to appropriate for stipends and fee-for-service contracts.

Senate Bill 10-003 temporarily delegated tuition authority to higher education governing boards from FY 2011-12 through FY 2015-16 (five years). During this time frame, governing boards may increase resident undergraduate tuition rates up to 9.0 percent per year, and they may submit a plan to ensure access and affordable tuition for low- and middle-income students to the CCHE for permission to implement larger tuition increases. When the provisions of S.B. 10-003 expire, the responsibility to set tuition spending authority reverts to the General Assembly [Section 23-5-129 (10), C.R.S.], and the tuition increases used to derive the total spending authority for each governing board will be detailed in a footnote to the Long Bill [Section 23-18-202 (3) (b), C.R.S.].



Enrollment. Enrollment is both a workload and performance measure for campuses, and it affects tuition and fee revenue. For a few schools, nonresident enrollment is important because nonresident tuition helps subsidize resident education. Increases in enrollment drive costs for faculty, advising, and general operating.

Enrollment tends to be counter-cyclical. In other words, when the economy slows, higher education enrollment increases. The following chart reports student FTE over the last 20 years. Thirty credit hours in a year equals one full-time-equivalent student. The chart also includes a trend line for degrees awarded. This is an unduplicated count of graduates. The relatively modest enrollment growth in the 1990's and significant growth in the 2000's correlate closely with the economic circumstances of the state during those time frames.



Personnel. Higher education governing boards are allowed by statute to determine the number of employees they need, but the appropriations reflect estimates provided by the governing boards of the number of employee at their institutions, which for FY 2011-12 total 21,119. This doesn't include employees of self-supporting auxiliary programs such as food services, book stores, or housing.

Of the amount state-operated institutions spend on education, approximately two-thirds is spent on salaries and benefits and most of this (60 percent) is spent on instructional faculty. Of total personnel costs, roughly 23 percent are associated with classified staff where the salaries and benefits are defined by the state personnel system and policies of the General Assembly, and the other 77 percent are for exempt staff where the governing boards have control of compensation. The market for tenure-track faculty is national. Pressure to offer compensation that is competitive with peer institutions in other states, and for some degree programs competitive with the private sector, is a significant factor in higher education institution expenditures.

College Opportunity Fund Program. Colorado uses a method of distributing higher education funding that is unique from other states. Instead of appropriating General Fund directly to the institutions for their day-to-day operations, the General Assembly appropriates money into a fund that provides stipends to eligible undergraduate students. In addition, the General Assembly appropriates money for differences in the cost of programs at each institution. This second appropriation for cost differentials gets to the institutions through what are called fee-for-service contracts between the CCHE and the governing boards.

It may be helpful for legislators to focus on the sum of stipends and fee-for-service contracts, rather than each separately. In practice, once stipends and fee-for-service contracts are paid to a higher education institution, the institution makes no distinction between them. The sum of stipends and fee-for-service contracts is the state General Fund support provided to each institution for their operations.

The bill that authorized stipends and fee-for-service contracts (S.B. 04-189) also provided a mechanism for designating qualifying state higher education institutions as enterprises under Article X, Section 20 of the Colorado Constitution (TABOR). Revenue, such as tuition, that is generated by enterprises is exempt from the limits imposed by TABOR and has no impact on any refund that may be due pursuant to TABOR. To achieve enterprise status under TABOR, a program must: (1) be a government-owned business; (2) have authority to issue revenue bonds; and (3) receive less than 10 percent of annual revenue from state and local grants. Stipends and fee-for-service contracts are defined in statute as different from a state grant. All of the institutions have been designated as TABOR enterprises.

Financial Aid. Of the General Fund appropriations for higher education in FY 2011-12, \$103.6 million (16.6 percent) are for financial aid. The majority of the money goes for need based aid and work study. There are also a number of smaller, special purpose financial aid programs. Financial aid funds are appropriated to the CCHE and then allocated to the institutions, including approximately \$6.5 million in FY 2011-12 for private institutions, based on formulas that consider financial need at the schools, total student enrollment, and program eligibility criteria.

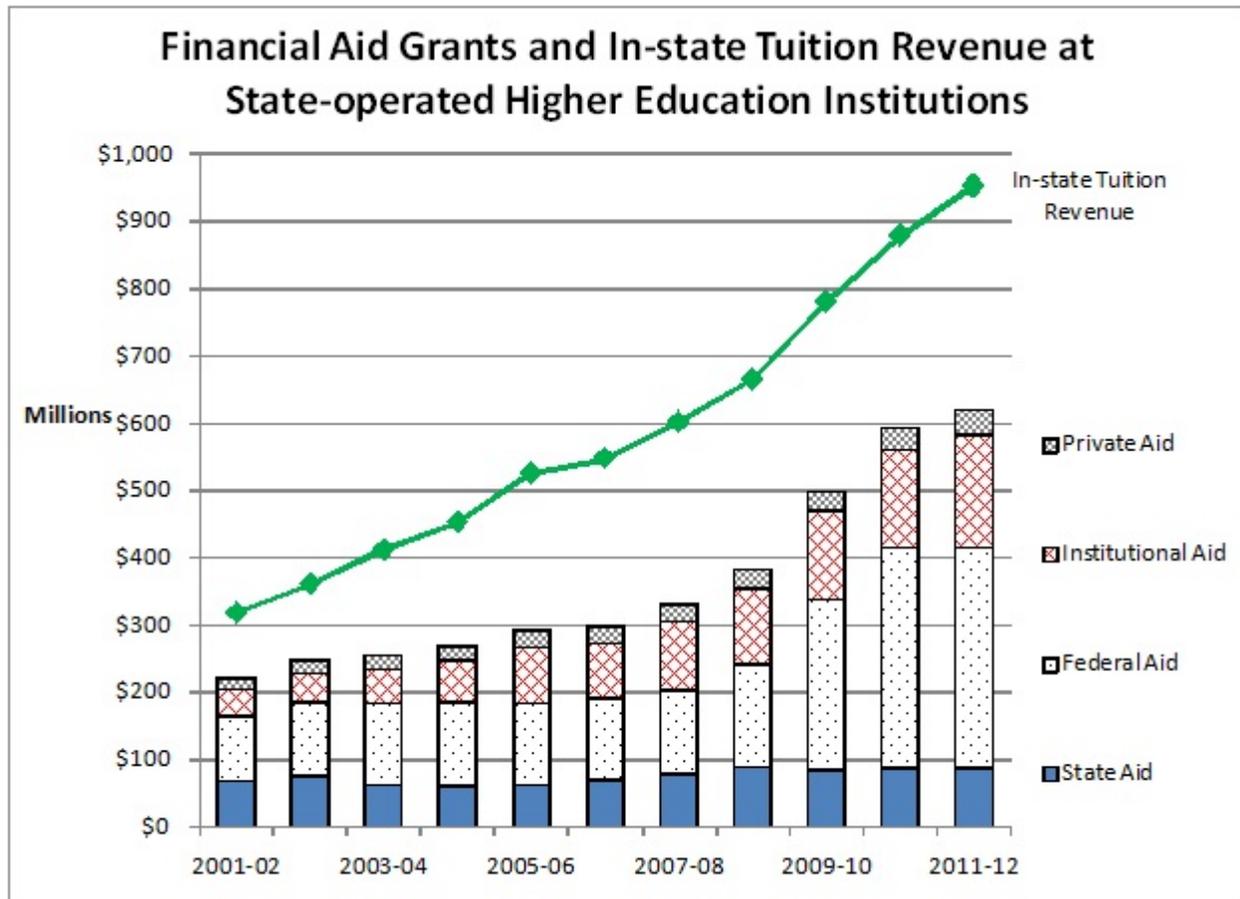
The federal government also provides a significant amount of financial aid for students. The majority of federal grants come through the Pell program for the neediest students. Federal legislation recently increased the maximum Pell grant for a full-time student to \$5,550 in FY 2010-11, from \$4,731 in FY 2008-09. The legislation also expanded eligibility. In FY 2010-11, the average adjusted gross income of the families of dependent students receiving the full Pell award was \$19,501, compared to \$18,352 in FY 2009-10, and the average of students receiving any Pell award was \$31,187, compared to \$37,881 in FY 2009-10.

The federal government also provides low-interest guaranteed loans and tax credits and deductions for tuition. Sixty-seven percent of students completing a bachelor's degree in FY 2010-11 from public institutions graduated with the support of federal student loans, and the average amount of federal loans for people graduating with debt was \$23,268.

Another source of funding for financial aid is money set aside by the institutions. Some of the money comes from fundraising, but the majority comes from the operating budgets of the schools. There is significant variation in the amount of money available by institution based on differences in school policies and fundraising.

The following table shows financial aid grants from various sources awarded to students attending state-operated higher education institutions. As an indication of the buying power of financial aid grants, the chart also provides information on total resident tuition revenues collected. However, it should be noted that financial aid is used for more than paying tuition. It also helps pay for expenses related to room, board, transportation, student fees, and learning materials. Depending on the institution, these other costs of attendance can dwarf the price of tuition. Also, the table does not take into account changes in the economic circumstances of the overall student population, including the number of students with financial need and the amount of need for those students.

Between FY 2008-09 and FY 2010-11 there were changes in the Pell eligibility criteria, an increase in the maximum Pell award, and increases in the number of low-income students qualifying for Pell awards. These changes account for the significant increase in federal funds granted those fiscal years.



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