The Conundrum of School Finance

Planning School Budgets for the Future:
All the Moving Parts

Weld County RE-1
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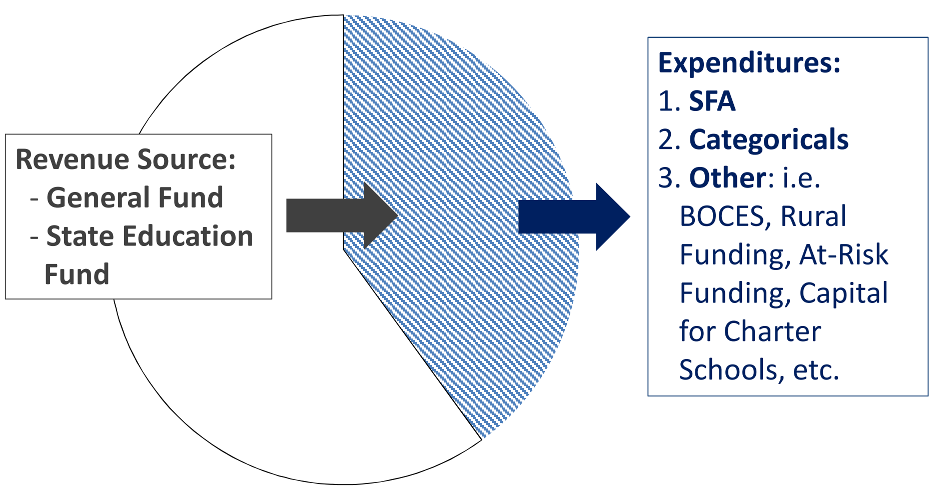
K-12 is 40% of State Budget



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Revenue Sources

1. Local Revenue – property taxes and ownership taxes.
2. State taxes – general fund and Education Fund
3. Federal Funds
4. Local Mill Levy Overrides

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Mill Levies

- Local Mill Levies are certified by school districts so revenue can be collected from the county for a district's portion for the school finance formula. (Mill levies *inside* the formula) Local Share + State Share.
- School districts can ask their voters to increase local taxes by raising mill levies for district needs – general operating and capital. (Mill levies *outside* the formula)

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Revenue INSIDE the School Finance Act

Local Share – District Total Program = State Share

LOCAL SHARE
Local District Taxes:
Property Taxes
Ownership Tax

STATE SHARE
State Taxes:
General Fund
Education Fund

Local Share
- Property tax
- Starting point for determining state share of District Total Program
- Remains in the district

State Share
- State "backfills" to reach District Total Program.

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State & Local Share Varies

District A

LOCAL SHARE
Local District Taxes:
Property Taxes
Ownership Tax

STATE SHARE
State Taxes:
General Fund
Education Fund

District B

LOCAL SHARE
Local District Taxes:
Property Taxes
Ownership Tax

STATE SHARE
State Taxes:
General Fund
Education Fund

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State Revenue

- K-12 has historically been about 42%-45% of the State budget – this year will be down to 37%.
- The reduction of state funds has been a result of the negative factor. This has been a mechanism for the state to take dollars away from education.

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Weld RE-1 Negative Factor

- Negative Factor: 2016-17 ?
  - 2015-16: $1.8M
  - 2014-15: $1.9M
  - 2013-14: $2.2M
  - 2012-13: $2.3M
  - 2011-12: $1.7M
  - 2010-11: $898K
  - 2009-10: $301K
- Total Lost Revenue: $11.1M

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Statewide Negative Factor

- Negative Factor: 2016-17 ?
  - – 2015-16: $831M
  - – 2014-15: $880M
  - – 2013-14: $1.004B
  - – 2012-13: $1.001B
  - – 2011-12: $774M
  - – 2010-11: $381M
  - – 2009-10: $130M
- What does this mean for school districts?
- State leaders warn increasing negative factor

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COMPONENTS FOR STATE LEVEL MODELING SCHOOL FINANCE FUNDING FOR 2015-16, 2016-17, 2017-18 and 2018-19 (JAN. 2016)

	228 Transfers	TABOR Refunds	Medicaid Expansion	Rescission	Negative Factor
Context	Triggered by a 5% growth in personal income in 2014. Requires 2.5% of GF to go to transportation in first two years and 3% in final three years. Can be halved or eliminated based on certain TABOR refund levels.	Required refunds to taxpayers when revenues exceed Ref. C TABOR Cap. If refunds above $97.7 million EITC kicks in. Over $294.6 million income tax rate reduction kicks in. Effectively means that increases in revenues above cap provide no additional revenues to state.	State must pick up higher shares of cost of Medicaid expansion over the years. The federal government picks up 100% of the cost of expansion through 2016, 95% in 2017, and 94% in 2018.	Based on projected funding for 2015-16, rescission may be necessary to balance budget according to current forecasts.	Statutory language exists to keep the negative factor at $855 million going forward. Modeling assumes this figure may need to change due to budget pressures.
2015-16	Projected full transfer. (If TABOR refunds occur at $100 million level than 228 is halved, basically a zero net impact.)	Neither model projecting refunds (Not unlikely for there to be a $100 million refund, if it occurs than 228 is halved, basically a zero net impact.)	No new cost	Governor's office assumes no rescission	$831 Million proposed from Governor
2016-17	None	Range of $250-$350	Half year of 5%		$50 million to stay constant ($100 million for 15-16 and 16-17)
2017-18	None	Range of $350-$400	Half year of 5%, and half year of 6%		$50 million to stay constant ($150 million for 15,16, 16-17, and 17-18)
2018-19	None	Range of $350-$400	Half year of 6%, and half year of 7%		$50 million to stay constant ($200 million for 15,16, 16-17, 17-18 and 18-19)

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COMPONENTS FOR STATE LEVEL MODELING SCHOOL FINANCE FUNDING FOR 2015-16, 2016-17, 2017-18 and 2018-19 (JAN. 2016)					
Student Growth	**Inflation**	**At-Risk %**	**State Ed Fund Balance**	**General Fund Contribution**	**Other Factors**
Projected figures represent projections and recent trends.	Projected figures represent recent trends.	Assuming percentage of total population in the state stays constant. This does not take into account individual district changes.	State Education Fund balance is declining. Ending balance targets have been set by the state.	If negative factor is to remain constant, then in conjunction with growth and lower SEF funds, GF contribution will need to grow.	De-brucing effort would cause a level of change that would make current modeling moot.
1.10%	State modeling 1.2%	44%	$147 million currently assumed in budgets	$350-$380 million increase to keep current funding levels, does not including $50 million for negative factor.	
1.18%	State modeling 1.8%	37%	$100 million target	Will increase unless changes to policy	
1.50%	2.5% - assumption	37%	$100 million target	Will increase unless changes to policy	
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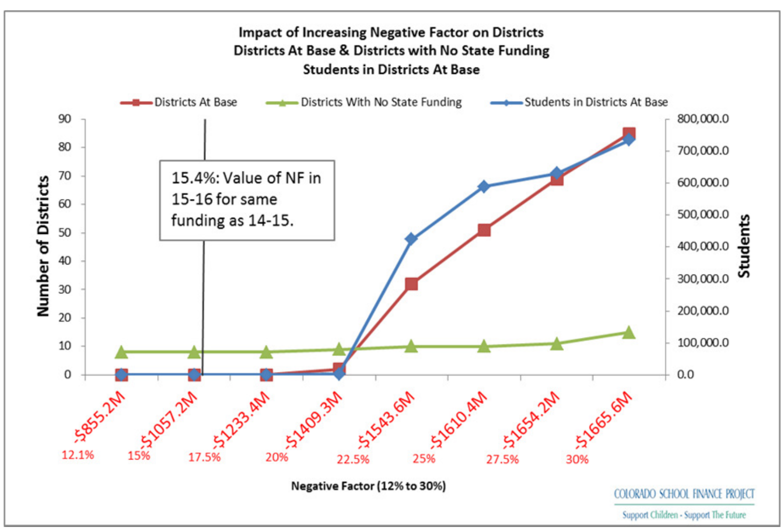
Impact of Increasing Negative Factor on Districts



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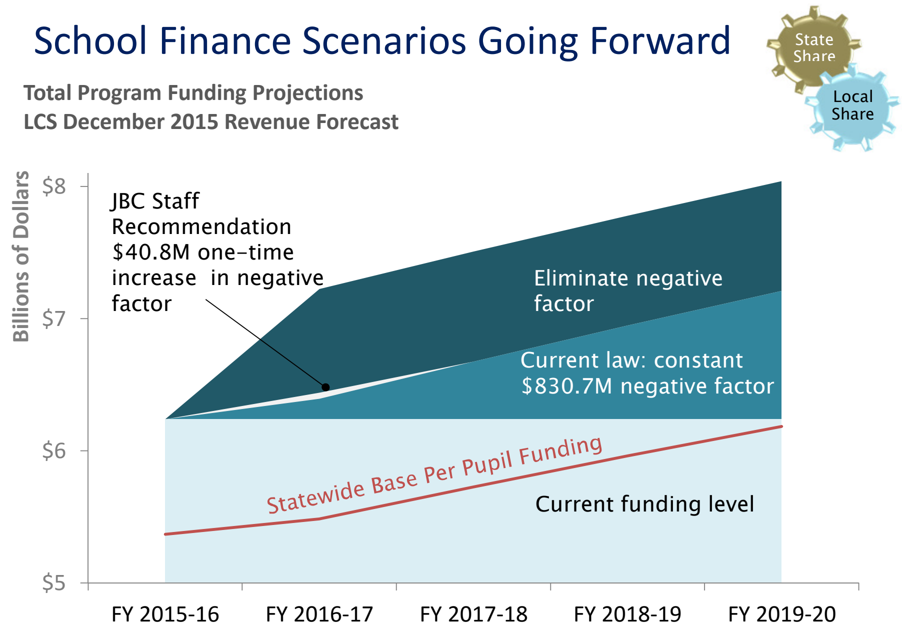
School Finance Scenarios Going Forward

Total Program Funding Projections
LCS December 2015 Revenue Forecast



Legislative Council, 02/2016

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How is this possible?

- State economy is robust
- Housing is strong
- Unemployment is low
- All the new cannabis industry revenue
- Increased valuation in residential property
- Low inflation
- Less student growth

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Hands Tied? Or Not?

- Can retain revenue state has collected above the cap – referred or citizens measure
- Hospital Provider Fee – constitutional or not?
- Increase taxes – referred or citizens initiative
- Other ideas?

Urgency

- Colorado can not:
  - grow our way out of the problem
  - solve the problem by mill levy overrides – as not all districts have that option
  - benefit from a growing economy with the current revenue constraints
  - depend on the Federal government to bail out Colorado
- Time does not make the problem better – only worse

Questions & Concerns

- Today
- Later – contact me

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