

Colorado Legislative Council Staff

**STATE and LOCAL
FISCAL IMPACT**

Drafting Number: LLS 03-0173
Prime Sponsor(s): Sen. Anderson
 Rep. King

Date: March 20, 2003
Bill Status: Senate Education
Fiscal Analyst: Chris Ward (303-866-5834)

TITLE: CONCERNING THE FINANCING OF PUBLIC SCHOOLS.

Fiscal Impact Summary	FY 2003/2004	FY 2004/2005
State Revenues General Fund		
State Expenditures General Fund	(\$9,867,960)	(\$9,867,960)
Cash Fund Exempt - State Education Fund	(1,459,729)	(1,459,729)
FTE Position Change	1.0 FTE	1.0 FTE
Other State Impact: None		
Effective Date: Upon signature of the Governor		
Appropriation Summary for FY 2003/2004: Department of Education - (\$9,867,960) and 1.0 FTE - General Fund Department of Education -(\$1,459,729) - State Education Fund		
Local Government Impact: See School District Impact		

Summary of Legislation

The bill modifies funding for public schools and several other programs affecting public schools, as follows:

School Finance Act Funding

- increases the **base per pupil funding** amount by 2.9 percent (\$128.80) to comply with the inflation-plus-one percent requirements of Amendment 23;
- sets the **minimum per pupil funding** level for FY 2003-04 at \$5,511, or 1.4 percent over the prior year's level;
- modifies **at-risk funding** to eliminate multi-year averaging of the pupil count and at-risk funding for certain non-English-speaking students;
- eliminates multi-year averaging of **preschool students** and sets the funding for such students at the minimum per pupil level;
- repeals the ability of school districts to count up to 135 children enrolled in **on-line programs** who would not otherwise be eligible for funding without HB 02-1349; and

- requires that funding for the biennial **Cost-of-Living Study** come from the total state aid appropriation for school finance.

School District and Charter School Capital Construction

Although not required by the settlement agreement of the *Giardino* lawsuit, the bill appropriates moneys for **school district capital construction** in FY 2003-04. The *Giardino* agreement requires the state to appropriate a total of \$20 million, unless certain budgetary triggers are not met. For FY 2003-04, these triggers are not in effect. However, the bill appropriates \$10 million for the same purposes - \$5 million to the School Construction and Renovation Fund and \$5 million to the School Capital Construction Expenditures Reserve. In addition, the bill appropriates these moneys from the State Education Fund instead of the General Fund.

The bill repeals the current program for funding **charter school capital construction** and establishes a new program that mirrors the existing program for school districts. The current program provides funding on a per pupil basis, regardless of each charter school's actual need compared to the need of other charter schools. The new program allows charter schools to apply for state matching grants for eligible capital construction projects. The bill establishes an application process and criteria for the State Board of Education to approve and prioritize projects. The bill also creates the Charter School Capital Construction Fund and limits the amount that may be appropriated to the fund from the State Education Fund to \$5 million per year

For FY 2003-04, the bill suspends the requirement that an amount equal to the amount provided for charter school capital construction also be appropriated for **school district capital construction funding**.

The bill limits the state's moral obligation for restoring **charter school debt reserve funds** to any bonds issued by charter schools prior to the bill's effective date.

Other Programs

For FY 2003-04 and FY 2004-05, the bill reduces the number of **preschool slots** by 1,000, from 11,050 to 10,050. Beginning in FY 2005-06, the number of funded slots is restored to 11,050. The bill also reduces the number of preschool slots that may be used for full-day kindergarten programs from 1,500 to 1,000.

The bill eliminates a school district's authority to enter into **business incentive agreements** with a taxpayer who either establishes a new business facility in the district or expands an existing facility. The state would continue to provide replacement funding for existing agreements, but no new agreements.

Beginning with FY 2002-03, the bill prohibits the state from spending more than \$19 million in **interest earnings from the Public School Fund** for school finance. Any interest earned above this amount must remain in the fund.

The bill requires school districts to comply with state law concerning budgeting, accounting, and reporting procedures as a condition of **accreditation**. The State Board of Education must establish this requirement by rule as an accreditation indicator.

For the 2003-04 budget year, the bill eliminates funding of the **national credentials fee assistance program**. Funding for the program would be subject to available appropriations in future budget years.

The bill delays implementation of the **academic growth pilot program**, so that voluntary provisions would begin with the 2004-05 school year and mandatory provisions would begin with the 2007-08 school year.

State Revenues

The bill limits the amount of Public School Fund interest earnings that may be spent for school finance each year to \$19 million and requires that any interest above \$19 million remain in the fund. By contributing to the principal of the fund, the bill should increase interest earnings in the future. However, interest earnings are not expected to exceed \$19 million until FY 2005-06. Table 1 shows interest earnings of the Public School Fund and the estimated amount to be retained in the fund. Any additional interest earnings would not count towards the state's constitutional revenue limit.

Table 1. Estimated Impact on the Public School Fund under SB 03-248		
	Estimated Interest Earnings	Amount to be Retained in the Fund
FY 2001-02	\$21,779,097	\$0
FY 2002-03	\$18,511,323	\$0
FY 2003-04	\$17,951,330	\$0
FY 2004-05	\$18,492,080	\$0
FY 2005-06	\$19,032,830	\$32,830
FY 2006-07	\$19,573,580	\$573,580

State Expenditures

School finance funding is provided primarily through the Long Bill. Based on current estimates, this bill will reduce state expenditures from the level anticipated to be funded in the Long Bill by \$11,327,689 in FY 2003-04. The components of this impact are shown in Table 2. It should be noted that any costs related to current law are not included in this fiscal note, but overall school finance act funding for public schools is shown in Table 3.

Table 2. Estimated Change in School Finance Expenditures from Current Law Under SB 03-248		
	FY 2003-04	FY 2004-05 *
General Fund Expenditures		
Eliminate Averaging of At-Risk Pupils and Modify At-Risk Count	(\$4,014,163)	(\$4,014,163)
Reduce Preschool Slots and Fund at Minimum (\$5,511 per pupil)	(2,586,817)	(2,586,817)
Reduce Minimum from \$5,593 to \$5,511	(2,262,798)	(2,262,798)
Eliminate funding for 135 on-line students not otherwise eligible	(755,055)	(755,055)
Compounding of School Finance Formula Changes	(304,894)	(304,894)
1.0 FTE Support for Charter School Cap Construction Program	<u>60,000</u>	<u>60,000</u>
Subtotal	(\$9,867,960)	(\$9,867,960)
State Education Fund Expenditures		
Suspend FY 03-04 Cap Construction Match for School Districts	(\$8,040,547)	(\$8,040,547)
Limit Charter School Cap Construction Funding to \$5M/year	(3,040,547)	(3,040,547)
Replace GF Funding for School Construction/Renovation Fund	5,000,000	5,000,000
Replace GF Funding for School Cap Constr. Expend Reserve	5,000,000	5,000,000
Delay Academic Growth Pilot Program for Two Years	(318,635)	(318,635)
Eliminate FY 03-04 Funding for Nat'l Credential Fee Asst Prog	<u>(60,000)</u>	<u>(60,000)</u>
Subtotal	(\$1,459,729)	(\$1,459,729)
Net Change in School Finance Expenditures under SB 03-248	(\$11,327,689)	(\$11,327,689)

* *The estimated cost of the bill beginning in FY 2004-05 is based solely on the estimated increase in costs for FY 2003-04 and excludes any inflationary increases.*

The Department of Education will require staff support for the new charter school capital construction grant program. The support for this function is expected to require \$60,000 and 1.0 FTE. Since no other funding is identified, these costs are assumed to be paid from the General Fund. However, the costs could be paid from the Charter School Capital Construction Fund, which is established for the program.

The bill repeals the authority of school districts to enter into incentive agreements with new or expanding businesses. Under this program, the state provides additional funding to backfill a portion of the property taxes attributable to a new or expanded business facility that were rebated to the business through the agreement. This backfill is provided through a General Fund appropriation. By eliminating any new agreements, the bill will reduce General Fund expenditures in the future.

School District Impact

School Finance. Under the bill and the provisions of current law, school finance act funding for public school districts is estimated to increase by the amounts shown in Table 3.

Table 3. Estimated School Finance Act Funding under SB 03-248					
	Pupil Count	Total Program	Per Pupil Funding	State Aid	Local Share
FY 2002-03	717,749	\$4,159,705,150	\$5,795	\$2,483,614,778	\$1,676,090,372
FY 2003-04	726,186	\$4,322,869,921	\$5,953	\$2,622,276,381	\$1,700,593,540
Percent change	1.18%	3.92%	2.73%	5.58%	1.46%
Increase	8,437	\$163,164,771	\$158	\$138,661,603	\$24,503,168

The bill requires that funding for the biennial school district cost-of-living study come from the base appropriation for school finance. The upcoming study is estimated to cost \$182,000. Thus, school finance funding for school districts will be reduced by a total of \$182,000 in FY 2003-04.

State Appropriations

The fiscal note implies that the following appropriations to the Department of Education be adjusted for FY 2003-04:

- Reduce overall General Fund appropriations for Public School Finance - Total Program by \$9,867,960, but increase by 1.0 FTE; and
- Reduce cash fund exempt appropriations from the State Education Fund for Public School Finance - Total Program by \$1,459,729.

Departments Contacted

Education Legislative Council Treasury