

Colorado Legislative Council Staff
STATE and LOCAL
REVISED FISCAL IMPACT

(replaces fiscal impact dated March 22, 2004)

Drafting Number: LLS 04-0700
Prime Sponsor(s): Rep. King
 Sen. Anderson

Date: April 5, 2004
Bill Status: Senate Education
Fiscal Analyst: Chris Ward (303-866-5834)

TITLE: CONCERNING THE FINANCING OF PUBLIC SCHOOLS.

Fiscal Impact Summary	FY 2004/2005	FY 2005/2006
State Revenues General Fund		
State Expenditures General Fund State Education Fund	(\$16,091,207) \$375,918	(\$19,036,790)
FTE Position Change	0.0 FTE	0.0 FTE
Other State Impact: None		
Effective Date: Upon signature of the Governor		
Appropriation Summary for FY 2004/2005: Department of Education - (\$16,091,207) - General Fund * Department of Education - \$375,918 - State Education Fund *		
Local Government Impact: See School District Impact section		

* These amounts reflect the bill's adjustment of appropriations in the FY 2004-05 Long Bill.

Summary of Legislation

The reengrossed bill makes the following changes to the laws affecting public schools:

School Finance Act changes:

- the **base per pupil funding amount** is increased by 2.1 percent to comply with the inflation-plus-one percent requirement of the state constitution;
- beginning in FY 2005-06, school districts may only count and receive funding for pupils who reach the **minimum age requirements by September 1** (five years old for kindergarten and three or four years old for preschool) and beginning in FY 2006-07, school districts may only count and receive funding for 1st graders who are at least 6 years old by September 1;
- **part-time students will be measured and funded in quarter-time increments** based on each student's scheduled hours of teacher-pupil contact divided by the statutorily required number of hours of teacher-pupil contact;

- **school district cost-of-living factors** are specifically defined to exclude any annual increase in the costs of housing, goods, and services due to inflation; and
- the administration of the school finance act by **the Department of Education's School Finance Unit** will be funded off-the-top from the state's school finance appropriation, instead of being funded through a separate appropriation.

Charter and On-Line Schools

The bill requires that **contracts between charter schools and local school boards** must specify the financial information to be reported by the charter school and the deadline for reporting such information. These deadlines must be set to allow the district to comply with its own financial reporting requirements. If a district is put on accreditation notice as a result of the charter school's failure to report financial information in a timely manner, the district may withhold a portion of a charter school's monthly payment.

The bill allows charter schools to seek a determination from the State Board of Education regarding **distribution of moneys to a charter school** and whether the chartering district improperly withheld funding for the charter school. The bill sets forth timelines and other requirements for the department to make its determination. If the state determines that the district improperly withheld funding from the charter school and does not pay the amount owed within 30 days, the department may withhold funding from the district and pay it directly to the charter school.

The department is also required to develop rules governing **the billing of excess costs** for educating a child with a disability. These rules would be incorporated into a contract between the student's district of residence, which is paying the costs, and the on-line provider or the charter school the student will be attending.

The bill requires that charter schools submit to a **governmental audit**, instead of being audited as a non-profit entity. The bill requires that the audit comply with the requirements of the Department of Education and that the audit information be reported along with the charter school's other information.

The bill requires charter schools to comply with all **requirements of the Public School Finance Act of 1994**, including the counting of pupils.

Other Provisions

The bill modifies the expenditures for **K-12 capital construction** in FY 2004-05, to essentially reallocate the funds between the School Construction and Renovation Fund and the School Capital Construction Expenditures Reserve. First, the bill suspends the statutory requirement that school districts receive the same level of capital construction funding that charter schools receive. For FY 2004-05, the law requires that \$5 million be appropriated from the State Education Fund to the School Capital Construction Expenditures Reserve. Second, the bill appropriates \$5 million from the State Education Fund for FY 2004-05 — \$2.5 million to the School Construction and Renovation Fund and \$2.5 million to the School Capital Construction Expenditures Reserve.

The bill allows for a school district to be put on **accreditation notice** if the school district fails to comply with a written directive or order from the State Board of Education.

State Expenditures

Funding for public schools in Colorado is governed in part by Article IX, Section 17 of the Colorado Constitution and in part by the requirements of the Public School Finance Act of 1994. The state's share of these moneys (\$2.75 billion in FY 2004-05) are provided through the Long Bill.

For **FY 2004-05**, this bill reduces state expenditures by \$15,715,289, when compared to the amount appropriated in the Long Bill, by excluding any annual increase in the costs of housing, goods, and services due to inflation in calculating school district cost-of-living factors. This impact includes a General Fund reduction of \$16,091,207 and a State Education Fund increase of \$375,918. In addition, the bill modifies \$5 million worth of expenditures for K-12 capital construction in FY 2004-05, to essentially reallocate the funds between the School Construction and Renovation Fund and the School Capital Construction Expenditures Reserve. The bill also establishes a new basis for counting part-time pupils, although this change is not expected to significantly affect state expenditures.

Beginning in **FY 2005-06**, the bill further reduces the cost of school finance by modifying rules of the Department of Education regarding the age at which a child is eligible to enroll in kindergarten. Current rules require children to be at least five years old by October 1; the bill requires children to be five by September 1. This should reduce state aid by an estimated \$3,321,501 in FY 2005-06 and \$9.4 million per year thereafter. It should be noted, however, that this estimate assumes the State Board of Education will enforce its existing rule establishing an October 1 cutoff date. If the board waives its rule and allows children who reach age 5 after October 1 to be counted for school finance purposes, the fiscal impact of this provision will be greater. Without this provision, the state aid cost for funding kindergarten students who are not 5 years old by September 1 is estimated to be roughly \$4.3 million.

The bill allows for the School Finance Unit in the Department of Education to be funded off-the-top from state aid appropriations under the school finance act. Current law provides funding for 1.0 FTE of the 10.0 FTE in the unit in this manner, while the remaining 9.0 FTE are funded through a separate General Fund appropriation. For FY 2004-05, this reduces state General Fund expenditures to the department by \$761,568, which will be made up by reducing state aid allocations to public schools by the same amount. This change is included in the 2004 Long Bill.

The bill also authorizes the Department of Education to resolve certain disputes between charter schools and school districts regarding the distribution of moneys. This will increase costs of the Department of Education, although not to a significant extent. Any costs for this purpose would be paid for by withholding a portion of the district's or charter school's allocation of school finance moneys. The department is also required to develop rules governing the billing of excess costs by a school or district to the district where the student resides. Subject to these rules, excess costs are to be negotiated and agreed to as part of a contract between the district of residence, which is paying the costs, and the on-line provider or charter school.

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 2. A more detailed printout showing funding for individual school districts is available on-line, by following the links from: http://www.state.co.us/gov_dir/leg_dir/lcsstaff/schfin/04sfprint.htm

Table 2. Estimated School Finance Act Funding under HB 04-1397					
	Pupil Count	Total Program Funding	Per Pupil Funding	State Aid	Local Share
FY 2003-04 (Act)	723,230	\$4,298,152,151	\$5,943	\$2,624,575,132	\$1,673,577,019
FY 2004-05 (Est)	728,575	\$4,422,239,614	\$6,070	\$2,732,461,999	\$1,689,777,615
Percent change	0.74%	2.89%	2.13%	4.11%	0.97%
Increase	5,345	\$124,087,463	\$127	\$107,886,867	\$16,200,596

The bill requires that school districts and charter schools enter into contractual agreements setting forth the responsibility for paying excess costs for educating children with disabilities. These contracts would be governed by rules established by the Department of Education.

To the extent that charter schools and school districts choose to seek a determination from the State Board of Education regarding a conflict over moneys, one of the two parties will be required to reimburse the department for any costs incurred in resolving the dispute.

The bill allows for the funding of the Department of Education's School Finance Unit out of the state's share of school finance act funding. For FY 2004-05, this would reduce state aid to public schools by \$761,568, or \$1.05 per pupil.

State Appropriations

For FY 2004-05, Long Bill appropriations to the Department of Education for public school finance should be adjusted as follows:

- the General Fund appropriation should be reduced by \$16,091,207; and
- the State Education Fund appropriation should be increased by \$375,918.

Also, the \$5 million cash fund exempt appropriation required by current law from the State Education Fund to the School Capital Construction Expenditures Reserve should be reduced by \$2.5 million and an additional \$2.5 million should be appropriated from the State Education Fund to the School Construction and Renovation Fund.

Departments Contacted

Education

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