

**STATE and LOCAL  
REVISED FISCAL IMPACT**

(replaces fiscal note dated April 22, 2008)

**Drafting Number:** LLS 08-0908  
**Prime Sponsor(s):** Rep. Pommer  
 Sen. Windels

**Date:** April 25, 2008  
**Bill Status:** Senate Appropriations  
**Fiscal Analyst:** Chris Ward (303-866-5834)

**TITLE:** CONCERNING THE FINANCING OF PUBLIC SCHOOLS, AND MAKING AN APPROPRIATION THEREFOR.

<b>Fiscal Impact Summary</b>	<b>FY 2008-2009</b>	<b>FY 2009-2010</b>
<b>State Revenue</b>	\$0	\$0
<b>State Expenditures</b>		
General Fund	\$85,092	\$79,909
State Education Fund	113,015,717	75,289,580
<b>FTE Position Change</b>	7.5 FTE	7.5 FTE
<b>Effective Date:</b> Upon signature of the Governor or upon becoming law without his signature; except for sections 23, 24, 30, and part of section 10, which are conditioned on the passage of other bills.		
<b>Appropriation Summary for FY 2008-2009:</b> See State Appropriations section.		
<b>School District Impact:</b> See School District Impact section.		

**Summary of Legislation**

As amended by the Senate Education Committee on April 24, 2008, the bill modifies several laws affecting public schools, including the school finance act. These changes, which are described in greater detail below, have a fiscal impact:

- increases the statewide "base" per pupil amount by 2.2 percent to match inflation plus 1 percent, as required by the state constitution, plus another \$19.72;
- establishes a \$35 million grant program for full-day kindergarten facility capital construction;
- provides both supplemental and hold-harmless funding to operate full-day kindergarten programs;
- funds students served in facilities directly, instead of via school districts, and provides hold-harmless funding for the loss in capital reserve funding caused by the change;
- adds a 5th year of averaging for declining enrollment districts;
- adds \$5 million for charter school capital construction;
- adds \$2 million in grant money for high-cost special education;
- provides \$200,000 in grants for after-school pilot programs emphasizing science, technology, engineering, and math (STEM);
- requires a study of the impact of declining enrollment on students;
- extends the General Fund appropriation requirements of Amendment 23 (maintenance of effort) past FY 2010-11; and
- adds 300 new preschool slots in FY 2008-09, bringing the total to 20,160.

**Full-Day Kindergarten.** The bill provides **supplemental funding** for full-day kindergarten based on the number of students enrolled. Kindergartners will still be counted as 0.5 FTE for enrollment purposes, but a factor of 0.58 will be used for funding purposes beginning in FY 2008-09. The bill also provides **hold-harmless funding** based on full-day kindergarten enrollment in the Colorado Preschool and Kindergarten Program (CPKP) from FY 2007-08. Thus, districts will always be eligible for funding to cover the same number of full-day kindergartners that were enrolled in FY 2007-08. Districts must use both supplemental and hold-harmless kindergarten funding to provide access to full-day kindergarten, unless the district's program meets at least 90 percent of the demand for full-day kindergarten.

The bill establishes a new **full-day kindergarten capital construction grant program** and provides \$35 million in FY 2008-09 to help pay for the costs of renovating or renting a facility, or purchasing a temporary facility, for use in providing full-day kindergarten. The bill sets criteria to be considered when making grants. The Colorado Department of Education (CDE) must provide **technical assistance** to districts wishing to implement a full-day kindergarten program, and CDE's Financial Policies and Procedures Advisory Committee must establish tracking requirements for both supplemental and hold-harmless kindergarten funding. A district that has no full-day kindergarten pupils must hold its supplemental kindergarten funding in reserve for such pupils in the future.

**Preschool.** Beginning in FY 2008-09, the bill adds 300 preschool slots, in addition to the 3,500 new slots authorized under current law. It also eliminates the full-day kindergarten component of CPKP, thereby increasing the number of preschool slots under the current allocation by 2,454. School districts may apply to CDE for a half-year (4.5 months) preschool program. They may also apply for a new full-year (9 months) program with half of the moneys used for preparation and the other half used to actually provide preschool services.

**Funding for Students Served in Facilities.** Under current law, a student served in a facility is counted in the district in which he or she lives, but funding is withheld by CDE and paid to the facility. This bill eliminates the counting of such students in districts and provides funding directly to facilities based on the number of students served. It also changes the basis for funding facilities from per pupil operating revenue to per pupil revenue (an increase of \$301 per pupil) and counts pupils educated in facilities as 1.33 to account for the fact that facilities operate year round. CDE is authorized to withhold 2 percent of the amount payable to each facility.

The bill repeals the summer school grant program for facility schools, for which \$4.8 million is appropriated in the FY 2008-09 Long Bill. It also specifies that school districts are not obligated to pay excess costs to an approved facility for the months of June, July, and August.

School districts currently retain the minimum capital reserve allocation for students living in the district who are being served in a facility. In FY 2007-08, this amounts to \$292 per student for each of the 2,012 students served in facilities. The bill eliminates the counting of those students in the district of residence, but provides hold-harmless funding to make up for the loss in district revenue in FY 2008-09. Students enrolled in facility schools are removed from the funded pupil count.

**Other provisions.** The bill modifies the requirements for requesting voter approval of additional property taxes, known as **overrides**. Current law caps overrides at 20 percent of the district's school finance act funding or \$200,000, whichever is more. The bill repeals the requirement that districts request a specific dollar amount of property taxes, permitting a broader range of questions on the ballot. The bill also limits eligibility for small attendance center aid to those schools that are currently eligible, eliminates 4th grade as a component of the summer school grant program, includes charter schools serving primarily deaf and blind students in charter school capital construction allocations, and allows districts to use a portion of their beginning fund balance.

**State Expenditures**

**Background.** School finance in Colorado is governed in part by the constitution (Amendment 23 - Article IX, Section 17) and in part by statute (the Public School Finance Act of 1994 - Title 22, Article 54, C.R.S.). Under current law, Colorado's school finance act is estimated to cost over \$5.3 billion in FY 2008-09, of which over \$3.3 billion would come from state sources, mainly the state General Fund. Current law requirements are funded through the Long Bill; any changes to the law require a separate appropriation.

**HB 08-1388.** The bill increases state expenditures for K-12 education by an estimated **\$113.0 million in FY 2008-09** compared to the requirements of current law. The components of this impact are shown in Table 1. For many items, FY 2009-10 costs reflect an increase of inflation plus one percent over the FY 2008-09 level, as required by the state constitution.

<b>Table 1. FY 2008-09 State Expenditures under HB 08-1388</b>		
<b>Provision</b>	<b>FY 2008-09</b>	<b>FY 2009-10</b>
Additional Increase in Base Per Pupil Amount (\$19.72)	\$19,967,016	\$20,825,598
Full-Day Kindergarten Capital Construction Grant Program	35,000,000	0
Supplemental Full-Day Kindergarten Funding	31,719,892	33,083,847
Hold-Harmless Full-Day Kindergarten Funding	7,356,409	7,672,735
Direct Funding for Facility Schools through CDE	18,475,256	19,269,692
Remove Funding for Facility Schools from Districts	(13,333,976)	(13,907,337)
5-Year Averaging for Declining Enrollment Districts	9,226,000	9,622,718
Increase Charter School Capital Construction Funding	5,000,000	0
Repeal Summer School Facility Grant Program	(4,800,000)	(4,800,000)
Increased Funding for Special Ed High-Cost Grants	2,000,000	2,086,000
Add 300 preschool slots in FY 2008-09	987,000	1,029,441
Hold Districts Harmless for Moving Funding for Facility Students	587,504	0
Study Impact of Declining Enrollment on Students	200,000	0
STEM After-School Education Pilot Grant Program	200,000	0
CDE Costs for CPKP and Full-Day Kindergarten (6.0 FTE)	430,616	406,886
DHS Costs for Inspecting and Licensing Preschools (1.5 FTE) *	85,092	79,909
<b>Total Expenses</b>	<b>\$113,100,809</b>	<b>\$75,369,489</b>
<b>Subtotal - General Fund</b>	<b>\$85,092</b>	<b>\$79,909</b>
<b>Subtotal - State Education Fund</b>	<b>\$113,015,717</b>	<b>\$75,289,580</b>

\* These costs are paid from the General Fund, all other costs are a State Education Fund obligation.

Not included in Table 1 is the bill's requirement to extend the maintenance of effort requirement of Amendment 23 beyond FY 2010-11. Under that provision, General Fund appropriations for school finance must increase by at least 5 percent per year unless Colorado personal income grows by less than 4.5 percent. The bill makes the maintenance of effort requirement permanent for future years.

***Department of Education.*** Expanding the number of preschool slots and requiring CDE to provide technical assistance for full-day kindergarten programs will require 5.0 FTE at a cost of \$348,071 in FY 2008-09. This cost includes personal services (\$295,146), operating expenses (\$21,750), capital outlay (\$19,675), and leased space (\$11,500). In addition, CDE will need \$82,545 and 1.0 FTE in FY 2008-09 to administer the full-day kindergarten capital construction grant program. The bill allows CDE to retain up to 2 percent of the amount payable to each facility beginning in FY 2009-10 if HB 08-1204 is enacted.

CDE is required to contract with a private person or entity to study the impact of declining pupil enrollment statewide and recommend possible remedies to any negative impact on the students who remain in declining enrollment districts. A study on the cost of enrollment and enrollment change in Colorado school districts was completed in 2007 and may provide a starting point for the study required by this bill, but a significant amount of new data will be required as well. Based on similar studies that involve a large amount of data collection and analysis, the cost for this study is estimated at \$200,000. CDE must enter into a contract by September 15, 2008, and submit a final report to the legislature by March 15, 2009.

***Department of Human Services.*** Adding 300 new preschool slots and shifting 2,454 existing slots from full-day kindergarten will increase costs of the Department of Human Services for inspecting and licensing preschools by an estimated \$85,092 and 1.5 FTE in FY 2008-09. Beginning in FY 2009-10, costs are estimated at \$79,909. It should be noted that these costs are in addition to any costs associated with adding 3,500 new preschool slots in FY 2008-09 under current law.

***Office of Economic Development.*** The bill provides \$200,000 in funding for grants to be allocated through the STEM program (science, technology, engineering, and math). The program is administered by the Office of Economic Development and International Trade in the Governor's Office. Due to the relatively low number of grants expected to be awarded, no new appropriations for associated workload are required.

### **Expenditures Not Included**

Pursuant to a Joint Budget Committee policy, funding for the items noted below are not included in fiscal note expenditure estimates.

- group health, life and dental insurance
- short-term disability
- inflation indices

- leased space (for the Department of Human Services)
- amortization equalization disbursements
- indirect costs
- supplemental amortization equalization disbursements

**School District Impact**

Table 2 shows the estimate of school finance act funding under HB 08-1388.

<b>Table 2. School Finance Act Funding</b>					
	<b>Pupil Count</b>	<b>Per Pupil Funding</b>	<b>Total Program Funding</b>	<b>State Aid</b>	<b>Local Share</b>
FY 2007-08 Act.	758,828	\$6,661	\$5,054,989,184	\$3,139,209,629	\$1,916,773,245
FY 2008-09 Est.	776,017	\$6,904	\$5,357,748,078	\$3,391,705,408	\$1,966,313,376
Percent change	2.27%	3.65%	5.99%	8.04%	2.58%
Increase	17,189	\$243	\$302,758,894	\$252,495,779	\$49,540,131

Beginning in FY 2008-09, the bill provides nearly \$40 million for full-day kindergarten, through both supplemental and hold-harmless funding provisions. It also declares the General Assembly's intent to increase funding for full-day kindergarten up to \$100,000,000 by FY 2013-14.

The bill provides \$5 million in capital construction funding for charter schools in FY 2008-09 in addition to the \$5 million appropriated under current law. The first \$135,000 of the additional \$5 million will be allocated to a charter school serving primarily deaf and blind students. Unlike the original \$5 million, which is allocated on a per pupil formula basis, the new \$5 million will be allocated through grants similar to the need-based system established in HB08-1335 for other public schools.

Certain districts will be affected by the additional \$2 million in grant money available for high-cost special education, modifications to the override, the 2,454 new preschool slots, the ability to apply for a half-year preschool program and use CPKP moneys to prepare to offer a new preschool program, and the ability to use beginning fund balance moneys.

**State Appropriations**

For FY 2008-09, the Department of Education requires the following appropriations from the State Education Fund:

- \$48,565,932 (net total) for Public School Finance - Total Program;
- \$35,000,000 for the full-day kindergarten capital construction grant program;
- \$18,475,256 for facility schools;
- \$7,356,409 for hold-harmless full-day kindergarten funding;

- \$5,000,000 for charter school capital construction;
- \$2,000,000 for the high-cost special education grant program;
- \$587,504 for hold-harmless funding for moving funding for facility students;
- \$4,800,000 (reduction) for summer school facility grant program;
- \$200,000 for the STEM grant program;
- up to \$200,000 for a study of declining enrollment;
- \$348,071 and 5.0 FTE to administer CPKP; and
- \$82,545 and 1.0 FTE to administer the full-day kindergarten capital construction grant program.

The \$200,000 appropriated to the Department of Education for the STEM grant program is also reappropriated to the Office of Economic Development and International Trade in the Governor's Office.

For FY 2008-09, the Department of Human Services requires a General Fund appropriation of \$85,092 and 1.5 FTE.

**Departments Contacted**

Education  
Legislative Council Staff

Governor

Human Services