

*Colorado Legislative Council Staff Fiscal Note*  
**STATE and LOCAL**  
**REVISED FISCAL IMPACT**

(replaces fiscal note dated April 12, 2013)

<b>Drafting Number:</b> LLS 13-0347	<b>Date:</b> April 22, 2013
<b>Prime Sponsor(s):</b> Sen. Hudak; Steadman Rep. Hamner	<b>Bill Status:</b> House Education
	<b>Fiscal Analyst:</b> Marc Carey (303-866-4102)

**TITLE:** CONCERNING THE FINANCING OF PUBLIC SCHOOLS, AND, IN CONNECTION THEREWITH, MAKING AND REDUCING AN APPROPRIATION.

Fiscal Impact Summary	FY 2013-2014	FY 2014-2015
<b>State Revenue</b>		
Cash Funds		
Child Care Licensing Cash Fund	\$8,239	\$8,239
<b>State Transfers or Diversions</b>		
Transfer from the State Education Fund to the Great Teachers and Leaders Fund	\$200,000	
Transfer from the Public School Fund to the State Public School Fund	5 million	\$5 million
Transfer from the Public School Fund to the Early Literacy Fund	(16 million)	(16 million)
Transfer from the State Education Fund to the Early Literacy Fund	16 million	16 million
Transfer of General Fund Surplus to the State Education Fund		136.9 million
<b>State Expenditures</b>		
General Fund	\$43,898	\$40,605
Cash Funds		
State Education Fund - Total Program	51.8 million	
State Education Fund - Other	27,890,313	27,890,313
Early Literacy Fund	5,583,938	5,583,938
Great Leaders and Teachers Fund	200,000	
<b>FTE Position Change</b>	0.7 FTE	0.7 FTE
<b>Effective Date:</b> Upon signature of the Governor, or upon becoming law without his signature.		
<b>Appropriation Summary for FY 2013-2014:</b> See State Appropriations section.		
<b>Local Government Impact:</b> See School District Impact section.		

**Summary of Legislation**

*This reengrossed bill*, changes the "Public School Finance Act of 1994" by modifying the funding for K-12 public schools in FY 2013-14. The bill increases base per pupil funding to \$5,954.28 to reflect a 1.9 percent inflation rate. The bill also makes the following changes in the calculation of total program:

- establishes a minimum funded pupil count of 50 for each district;
- increases the number of slots in the Colorado Preschool Program (CPP) by 3,200; and
- increases total program funding by \$51.8 million by reducing the negative factor.

In addition to changes to total program, for FY 2013-14 and beyond, the bill modifies the funding for other public school programs as follows:

- increases charter school capital construction funding by \$1 million in FY 2013-14 and beyond;
- refinances supplemental at-risk aid for charter schools, school districts, and the Charter School Institute (CSI) from audit recoveries to the State Education Fund;
- refinances the READ Act to change the funding source from the Public School (permanent) Fund to the State Education Fund;
- increases the annual amount transferred from the Permanent Fund to the State Public School Fund from \$11 million to \$16 million;
- transfers \$200,000 from the State Education Fund to the Great Teachers and Leaders Fund in FY 2013-14 only;
- increases the special education appropriation by \$20 million and requires that this money be used for Tier B special education funding;
- requires that 50 percent of the FY 2013-14 General Fund surplus be transferred to the State Education Fund;
- provides additional funding for facility school students;
- increases the appropriation from the State Education Fund for Nationally Board Certified Teacher stipends by \$1,339,200.

In addition, the bill creates the following new program.

***Quality Teacher Recruitment Program.*** The bill requires the CDE to contract with not more than two vendors that meet certain specified criteria to create a quality teacher recruitment program, to assist in recruiting, training, and retaining highly qualified teachers for schools and districts with historic difficulty in retaining such teachers. Districts that seek to work with the vendor to place teachers must apply to the CDE. Vendors selected to operate the program must submit an annual report to the CDE that includes specified data and performance metrics. A third party will annually evaluate the program and report to the CDE.

## **State Revenue**

The bill will increase cash fund revenue by \$8,239 in FY 2013-14 and following years. The revenue increase is because of an increase in the number of preschool students who will require preschool facilities and providers. The Colorado Department of Human Services is responsible for licensing and inspecting preschools throughout the state, and charges an annual licensing fee of \$77 per classroom or facility. The bill is expected to require 107 new classrooms at an average size of 15 students per classroom. If each classroom provides morning and afternoon sessions, the revenue increase would be \$8,239 annually.

### **State Transfers or Diversions**

***READ Act Funding.*** This bill eliminates a transfer of up to \$16 million from the Public School (Permanent) Fund to the Early Literacy Fund. Instead, beginning in FY 2013-14 the bill requires the State Treasurer to transfer \$16 million annually from the State Education Fund to the Early Literacy Fund for purposes of the READ Act.

***Educator Effectiveness.*** For FY 2013-14, the bill requires the State Treasurer to transfer \$200,000 from the State Education Fund to the Great Teachers and Leaders Fund.

***Public School (permanent) Fund.*** The bill increases the annual amount transferred from the Public School Fund to the State Public School Fund from \$11 million to \$16 million.

***General Fund Surplus.*** The bill requires the transfer of 50 percent of the FY 2013-14 General Fund surplus to the State Education Fund. This amount is currently estimated to be \$136.9 million, but is dependent on the 2013 Long Bill and other legislation which has not yet been adopted by the General Assembly as well as other economic factors. This estimate will be updated as legislation becomes finalized and new information becomes available.

### **State Expenditures**

School finance in Colorado is governed both by the constitution (Amendment 23 - Article IX, Section 17) and statutes (the Public School Finance Act of 1994 - Title 22, Article 54, C.R.S.). Under current law, total program is estimated to cost \$5.457 billion in FY 2013-14, of which \$3.481 billion comes from state sources, mainly the General Fund.

***Total Program Funding.*** Senate Bill 13-260 increases total program funding in FY 2013-14 by \$51.8 million to increase per pupil funding by \$173 and account for increases in the funded pupil count. As a result, the bill sets total program funding for FY 2013-14 at \$5.508 billion. This represents a 15.49 percent reduction from what funding levels would have been without the negative factor.

The \$5.508 billion in total program funding represents an estimated increase of \$210.4 million in FY 2013-14 compared with actual funding levels for FY 2012-13, and an estimated increase of \$51.8 million in FY 2013-14 relative to current law. Since the negative factor is set at 15.49 percent, each district's total program funding will be reduced by 15.49 percent from the level set by the funding formula before application of the negative factor, provided the district receives at least an amount of state aid that is greater than this percentage reduction.

***Full Day Kindergarten.*** The increase in per pupil funding for school districts will result in a \$51,248 increase in full-day kindergarten hold-harmless funding that some school districts will receive in FY 2013-14.

***Charter School Capital Construction.*** The bill increases the appropriation for charter school capital construction costs by \$1 million annually, beginning in FY 2013-14.

***Charter School At-Risk Supplemental Aid.*** This bill eliminates \$3,839,627 in funding for at-risk supplemental aid from recoveries from audits of school districts and charter schools. Instead, the bill funds this amount of supplemental, at-risk aid from the State Education Fund.

***READ Act Funding.*** Current law specifies that in FY 2013-14 and beyond, any interest or income up to \$16 million earned on investment of money in the Public School (Permanent) Fund in excess of \$11 million, other than moneys credited to the Public School Capital Construction Assistance Fund, shall be transferred to the Early Literacy Fund to be used for the purposes of the READ Act. This bill eliminates this transfer, and requires the State Treasurer to transfer \$16 million annually from the State Education Fund to the Early Literacy Fund for purposes of the READ Act.

The bill also increases the annual amount that is transferred from the Permanent Fund to the State Public School Fund from \$11 million to \$16 million.

***Tier B Special Education Funding.*** This bill increases the special education appropriation by \$20 million and requires the money be used for Tier B special education funding in FY 2013-14 and beyond. The bill also specifies that special education services are a program for accountable education reform, and thus this additional funding may be from the State Education Fund. This increase in funding permanently raises categorical funding requirements as specified under Amendment 23.

***Facility School Funding.*** The amended bill provides additional funding for students at facility schools. Specifically, the bill specifies that these 1,625 students be funded using a 0.73 multiplier over and above statewide base funding. This implies that facility schools will receive \$10,301 per pupil, for a total of \$2,506,290 in additional funding. This funding will be from the State Education Fund as this is the exclusive funding source for facility schools.

***Quality Teacher Recruitment Program.*** The bill creates the Quality Teacher Recruitment Program but is silent on a funding mechanism for the program. This fiscal note assumes \$3 million will be required to fund the program, and that the funding will come from the State Education Fund. The fiscal note will be updated as more information on the costs of the program and intended source of funding become available.

***Nationally Board Certified Teachers.*** The bill increases the appropriation from the State Education Fund for stipends to nationally board certified teachers by \$1,339,200.

***Colorado Department of Human Services (CDHS).*** CDHS will incur costs of \$43,897 in FY 2013-14 and \$40,605 in subsequent years to license and inspect preschool facilities. It is assumed that an additional 107 preschool classrooms will be needed to serve 3,200 new preschool students. This requires 0.7 FTE annually. Currently, the caseload for licensing preschools in CDHS is 150 per specialist.

**Expenditures Not Included**

Pursuant to a Joint Budget Committee policy, certain costs associated with this bill are addressed through the annual budget process and centrally appropriated in the Long Bill or supplemental appropriations bills, rather than in this bill. The centrally appropriated costs subject to this policy are summarized in Table 1.

<b>Table 1. Expenditures Not Included Under SB 13-260*</b>		
<b>Cost Components</b>	<b>FY 2013-14</b>	<b>FY 2014-15</b>
Employee Insurance (Health, Life, Dental, and Short-term Disability)	\$4,699	\$4,699
Supplemental Employee Retirement Payments	\$2,241	\$2,537
<b>TOTAL</b>	<b>\$6,940</b>	<b>\$7,236</b>

\*More information is available at: <http://colorado.gov/fiscalnotes>

**School District Impact**

Table 2 shows the estimate of school finance act funding under Senate Bill 13-260. The table compares FY 2013-14 funding levels with actual funding in the prior year. In FY 2013-14, the bill increases per pupil funding by \$173 from \$6,479 to \$6,652. Total program funding is increased from \$5.298 billion to \$5.508 billion. Of this amount, the state's share is increased from \$3.379 billion to \$3.533 billion.

<b>Table 2. School Finance Act Funding under Senate Bill 13-260</b>					
	<b>Pupil Count</b>	<b>Per Pupil Funding</b>	<b>Total Program Funding</b>	<b>State Aid</b>	<b>Local Share</b>
FY 2012-13 Act.	817,660	\$6,479	\$5,297,963,176	\$3,379,714,291	\$1,918,248,885
FY 2013-14 Est.	828,045	\$6,652	\$5,508,332,241	\$3,532,608,534	\$1,975,723,707
Percent change	1.27%	2.67%	3.97%	4.52%	3.00%
Increase	10,386	\$173	\$210,369,065	\$152,894,243	\$57,474,822

There are currently estimated to be eight districts receive less than 15.49 percent of their total program from state aid. Because these districts cannot fully enact a 15.49 percent reduction, they lose all existing state aid, plus they must use their total program mill levy to replace state funding for categorical programs up to an amount equal to a 15.49 percent reduction in combined state funding for total program and categorical program funding. Six districts, West Grand, Estes Park, Debeque, Park, Meeker, and Cripple Creek will see a significant (although less than 15.49 percent) reduction in state funding for both total program and categorical programs. Two other districts, Clear Creek and Pawnee, already buy out all or nearly all state funding for categorical programs, so the bill's reduction in state funding is relative minor. Because the percentage change in state funding for all eight districts is less than 15.49 percent, the funding changes are invariant to the passage of Senate Bill 13-260.

**State Appropriations**

For FY 2013-14, the bill contains the following net appropriations for the following funds:

- a cash funds appropriation of \$51,843,734 from the State Education Fund to the Department of Education for the state's share of total program;
- a cash funds appropriation of 20,000,000 from the State Education Fund to the Department of Education for special education funding;
- a \$7,890,313 cash funds appropriation from the State Education Fund to the Department of Education for other programs;
- a \$5,583,938 cash funds appropriation from the Early Literacy Fund to the Department of Education; and
- a \$200,000 cash funds appropriation to the Department of Education from the Great Teachers and Leaders Fund.

**Departments Contacted**

Education

Human Services

Legislative Council Staff

JBC Staff