

**STATE and LOCAL  
FINAL FISCAL IMPACT**

**Drafting Number:** LLS 07-0748  
**Prime Sponsor(s):** Sen. Windels  
 Rep. Pommer

**Date:** May 17, 2007  
**Bill Status:** Signed Into Law  
**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 2007-2008</b>	<b>FY 2008-2009</b>
<b>State Revenue</b>	\$0	\$0
<b>State Expenditures</b>		
General Fund	\$4,655,056	\$15,377,467
Cash Funds Exempt - State Education Fund	(41,012,119)	(34,618,395)
<b>FTE Position Change</b>	0.0 FTE	0.0 FTE
<b>Effective Date:</b> The bill was signed by the Governor and became law on May 9, 2007.		
<b>Appropriation Summary for FY 2007-2008:</b> See State Appropriations section.		
<b>School District Impact:</b> Increased funding for public school districts.		

**Summary of Legislation**

As amended, the bill modifies several laws affecting public schools, including the Public School Finance Act of 1994. Specifically, the bill makes the following changes, which are described in greater detail in the State Expenditures section:

- increases the statewide "base" per pupil amount by 4.6 percent to match inflation plus 1 percent, as required by the state constitution;
- freezes the school finance mill levy for many school districts and caps the levy for other districts at 27 mills;
- adds 2,000 preschool slots in FY 2007-08 and another 3,500 slots in FY 2008-09, bringing the total to 19,860;
- increases the minimum per pupil funding amount over 2 years to 95 percent of statewide average per pupil funding; and
- increases funding for the national credential fee assistance by \$25,000.

**Preschool and Kindergarten.** In addition to adding new preschool slots, the bill increases the maximum number of pupils who may be in a preschool class from 15 to 16 and increases the number of pupils who may be in a full-day kindergarten class from 15 to 20. School district preschool and kindergarten program advisory councils must assess the availability of alternative community providers every 2 years, instead of every 5 years.

***School facilities.*** Under current law, school districts must allocate a certain amount per pupil to a capital reserve fund. The bill allows a district to count other money deposited into its capital reserve fund against the required allocation, including proceeds from the sale of land or buildings, payments made by a developer in lieu of land dedicated for schools, and contributions made under a voluntary agreement between a district and a developer. The bill allows a district to sell facilities that might otherwise be used by a charter school. It also makes charter schools leasing state facilities eligible for capital construction grants from the state.

***Other provisions.*** The bill authorizes the House and Senate Education Committees to recommend to the Joint Budget Committee an allocation of required increases in state funding for categorical programs. A recommendation must be made by February 15 and must be considered by the JBC for the Long Bill. School district budgets must be presented in a standard format established by rules of the State Board of Education and a copy must be filed with the Colorado Department of Education by January 31 of each year. The rules must be developed by July 1, 2008, and the first budget must be submitted by January 31, 2009.

Members of the State Board of Education and the State Charter School Institute would be prohibited from serving as a member of the General Assembly; as an officer, employee, or board member of a school district or charter school; or as an employee of either the state board, the institute board, or the department of education. The state board is also prohibited from denying exclusive chartering authority to a local board of education based on the district's moratorium regarding charter schools if the moratorium was repealed on or before October 1, 2004.

The bill reduces the interest rate charged to school districts for any moneys that must be repaid as a result of an audit and allows for an interest-free period in which to repay any amount identified in an audit begun on or after July 1, 2007. Districts must develop a plan to potentially phase in a full-day kindergarten program and submit the plan to the department of education by February 1, 2008. But, they would no longer have to report annually on plans for how the required 1 percent increase in funding provided by Amendment 23 would be spent in the upcoming budget year.

Districts may count and receive funding for first graders who are at least 5 years old on or before October 1 of the applicable budget year, if the pupils completed at least 120 days of kindergarten in a state other than Colorado. Aid for a declining enrollment district with new charter schools is capped at \$300,000. The priority for allocating special education high-cost grants is changed to focus first on out-of-district placements. Districts with 750 or fewer pupils must consider whether to contract for preschool services before spending any money on facilities related to a preschool program. Lastly, the education requirements for speech-language pathology assistants in districts with up to 3,000 pupils are relaxed.

## **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 \$5.1 billion in FY 2007-08, of which over \$3.3 billion would come from state sources, mainly the state General Fund. This current law requirement is funded through the Long Bill; any changes to the law require a separate appropriation.

**SB 07-199.** As amended, the bill reduces state expenditures for K-12 education by an estimated \$36.4 million in FY 2007-08 compared to the requirements of current law. The components of this impact, and the allocation across funding sources, are shown in Table 1.

<b>Table 1. Cost Components of SB 07-199</b>		
	<b>FY 2007-08</b>	<b>FY 2008-09</b>
Freeze Mill Levies and Cap at 27 Mills	(\$47,406,178)	(\$47,835,362)
Add 2,000 and 3,500 preschool slots in next 2 years	\$4,655,056	13,377,467
Increase Minimum Per Pupil Funding	6,369,059	13,191,967
Delayed Audit Recoveries	0	2,000,000
National Teacher Credentialing	25,000	25,000
<b>Total Expenses</b>	<b>(\$36,357,063)</b>	<b>(\$19,240,928)</b>
<i>Subtotal - General Fund</i>	<i>\$4,655,056</i>	<i>\$13,377,467</i>
<i>Subtotal - State Education Fund</i>	<i>(\$41,012,119)</i>	<i>(\$32,618,395)</i>

**Freezing mill levies** and setting a cap on levies at 27 mills will reduce the need for state expenditures for school finance by \$47.4 million in FY 2007-08 and \$47.8 million in FY 2008-09. Under current law, a school district's mill levy under the school finance act is based on the levy imposed in the prior year, unless that levy would generate more property tax revenue than allowed under the act, in which case the district's levy is reduced. As amended, the bill freezes school finance mill levies, allowing a greater portion of school finance act funding to be paid from local property taxes in districts where voters have approved a ballot question allowing the district to retain revenue in excess of its constitutional limit. For districts with school finance levies greater than 27 mills, the bill sets a cap on the school finance act mill levy at 27 mills.

Freezing and capping school finance act mill levies will also limit the amount available from local property taxes to pay for the increase in preschool students described below. This effect is accounted for in the estimated savings attributable to freezing mill levies. In addition, it is possible that freezing mill levies may lead to litigation costs not identified here. It is assumed that any such potential costs will be addressed through the regular budget process.

The bill adds **5,500 new preschool slots** over 2 years, including 2,000 in FY 2007-08 and another 3,500 in FY 2008-09. Preschool students are funded at one-half time, so an increase of 5,500 slots equates to 2,750 new full-time pupils. Since the districts that will receive the new slots are not yet known, the costs shown in Table 1 are based on projected statewide average per pupil funding. In FY 2007-08, adding 2,000 preschool slots will require \$6.7 million, including \$4,655,056 in state costs. Beginning in FY 2008-09, adding another 3,500 slots will require \$19.1 million, including \$13,377,467 in state costs.

The school finance act guarantees a **minimum per pupil funding amount** which is increased under the bill over a 2-year period. In FY 2007-08, the minimum per pupil funding level is set at 94.3 percent of the state average per pupil funding amount excluding funding for on-line pupils, which will increase funding in 11 school districts. Beginning in FY 2008-09, the minimum is set at 95 percent of the statewide average, affecting 14 school districts. On-line pupils would continue to be funded under the existing formula.

The amount collected by the state through **audit recoveries** from school districts will be delayed by at least a year and the potential interest charged by the state on these recovered moneys will decline. On average, school finance act funding is predicated on the recovery of \$2 million per year from school district audits. The bill extends the period for repaying such moneys without interest and reduces the interest rate for any money not repaid by the deadline. Thus, it will increase the need for roughly \$2 million General Fund beginning in FY 2008-09.

The **National Credential Fee Assistance Program** covers a portion of the fees charged to teachers who apply for the credential. It provides a match equal to the amount received by an individual through a federal assistance program. For FY 2007-08, the Long Bill (SB 07-239) appropriates \$100,000 from the State Education Fund. This bill appropriates an additional \$25,000.

Assuming that **school district budgets** will be submitted in paper form to the Department of Education, no significant effort will be required by the department in making the budgets available to the public.

**School District Impact**

Table 2 shows the estimate of school finance act funding under SB 07-199, excluding the increase in preschool slots.

<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 2006-07 Actual	753,338	\$6,359	\$4,790,415,799	\$3,060,262,286	\$1,730,153,513
FY 2007-08 Est.	767,416	\$6,658	\$5,109,750,731	\$3,259,666,695	\$1,850,438,174
Percent change	1.87%	4.71%	6.67%	6.52%	6.95%
Increase	14,078	\$299	\$319,334,932	\$199,404,409	\$120,284,661

**Preschool.** The bill adds 2,000 preschool slots in FY 2007-08 and another 3,500 slots beginning in FY 2008-09. In the first year, total funding for preschool will increase by \$6.7 million. Of this amount, \$4.7 million will come from state sources and \$2.0 million will come from local property tax collections for schools. Property taxes increase because the limits on property taxes are based in part on pupil enrollment. The impact in FY 2008-09 is estimated at \$19.1 million, including \$13.4 million in state funds and \$5.7 million in local funds. It should be noted that these shares are affected by freezing and capping mill levies.

Certain school districts will benefit from increasing the minimum per pupil funding amount to 95 percent of the statewide average per pupil funding level. Districts will incur costs for converting the district's budget into a standard format and submitting the budget to the state each year, as well as for developing plans for full-day kindergarten programs. Some districts will be affected by the provisions regarding changes to the interest charged on money repaid through audit recoveries, deposits to the capital reserve fund, caps on preschool and full-day kindergarten class sizes, more frequent assessments of the availability of alternative preschool and kindergarten programs, funding provided for 1<sup>st</sup> graders who attended kindergarten in another state, and the relaxed education requirements for speech-language pathology assistants.

### **State Appropriations**

Consistent with this fiscal note, the bill contains the following appropriations to the Department of Education for FY 2007-08:

- \$4,655,056 from the General Fund for preschool;
- \$25,000 increase from the State Education Fund for teacher credentialing; and
- \$41,037,119 reduction from the State Education Fund for school finance.

### **Departments Contacted**

Education

Legislative Council Staff