

**FINAL
FISCAL NOTE**

Drafting Number: LLS 11-0841

Date: June 13, 2011

Prime Sponsor(s): Sen. Bacon
Rep. Massey

Bill Status: Signed into Law

Fiscal Analyst: Marc Carey (303-866-4102)

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

Fiscal Impact Summary	FY 2011-2012	FY 2012-2013
State Revenue		
State Transfers or Diversions		
Diversion from the Public School Fund to the State Public School Fund*	(\$36,000,000)	(\$36,000,000)
Transfer from the Severance Tax Trust Fund to the Public School Energy Efficiency Fund	(102,000)	(102,000)
Transfer from the Local Government Severance Tax Fund to the Public School Energy Efficiency Fund	(102,000)	(102,000)
State Expenditures		
General Fund	(\$460.7 million)	
Cash Funds		
State Education Fund	197,343,858	
State Public School Fund	36,000,000	36,000,000
Public School Energy Efficiency Fund	204,000	204,000
FTE Position Change		
Effective Date: The bill was signed into law by the Governor and took effect on June 9, 2011.		
Appropriation Summary for FY 2011-2012: See State Appropriations section.		
Local Government Impact: See School District Impact section.		

Summary of Legislation

This bill amends the "Public School Finance Act of 1994" to modify the funding for K-12 public schools in FY 2011-12. The bill increases the statewide base per pupil funding to \$5,634.77 to reflect a 1.9 percent inflation rate.

Negative factor. Under current law, the state's share of total program funding for FY 2010-11 and FY 2011-12 includes a budget stabilization factor. This factor is used to reduce total program funding to a targeted amount of \$5.44 billion in FY 2010-11, which translated into a 6.60 percent reduction for school districts. This bill renames the budget stabilization factor as the negative factor, extends its applicability indefinitely, and reduces the amount of total program funding for FY 2011-12 by an additional \$229 million to \$5.21 billion compared with FY 2010-11. This represents a 12.97 percent reduction from funding levels without the negative factor.

In addition to changes to the school finance act, the bill modifies the funding for other public school programs as follows:

Money generated from state trust lands. Last year, SB 10-150 diverted the following moneys away from the Public School (Permanent) Fund into the State Public School Fund to be used in the funding of K-12 public education:

- interest or income earned on the investment of moneys held in the Permanent School Fund;
- proceeds received from timber sales, rental payments for surface use on, and mineral lease payments for the extraction of minerals from underneath state trust lands; and
- royalties and other payments for the depletion or extraction of a natural resource on these lands.

This bill extends this diversion for FY 2011-12 and FY 2012-13.

Transfer of General Fund Surplus. SB 11-156 requires the State Treasurer to transfer all of the General Fund surplus to the State Education Fund. This bill specifies that if the June 2011 General Fund revenue forecast prepared by the Governor's office of State Planning and Budgeting (OSPB) increases compared with its March 2011 forecast, up to a maximum of \$67.5 million of the increase in the surplus will be transferred to the State Public School Fund instead of the State Education Fund.

Date of assessed value. Under current law, a school district's debt limit is determined by the most recent assessed valuation certified by the assessor. Preliminary assessments are typically made in August with a final certification in December. This bill would change the certification upon which a district's debt limit is determined from the August certification to the previous December's certification.

Interest differential. The bill extends a previously expired requirement out to September 1, 2015, that Legislative Council Staff calculate the additional interest earned on severance taxes paid monthly instead of quarterly. The added interest, up to \$1,500,000, is transferred to the Public School Energy Efficiency Fund and is continuously appropriated to the Governor's Energy Office.

State Transfers or Diversions

Money generated from state trust lands. The bill extends the diversion of approximately \$36 million in income from state trust lands from the Public School Fund into the State Public School Fund to be used in the funding of K-12 public education

General Fund Surplus. If OSPB's General Fund revenue forecast in June 2011 increases by at least \$67.5 million, this bill transfers \$67.5 million from the General Fund to the State Public School Fund for use in addressing changes in assessed values, pupil counts, at risk student counts, and specific ownership tax revenue. Under current law, these moneys would have been transferred to the State Education Fund.

Interest differential. The bill will result in an additional \$102,000 transferred from both the Severance Tax Trust Fund and the Local Government Severance Tax Fund to the Public Education Energy Efficiency Fund. When these transfers were last required, they resulted in approximately \$51,000 transferred per quarter from the two funds. This money is continuously appropriated to the Governor's Energy Office, and the amount will fluctuate with energy prices and severance tax revenues.

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, the program is estimated to cost \$5.44 billion in FY 2011-12, of which \$3.42 billion comes from state sources, mainly the General Fund. Current law requirements are funded through the Long Bill; law changes require a separate appropriation.

Negative factor. This bill decreases state expenditures for K-12 education by an estimated \$229 million in FY 2011-12 compared to the requirements of current law. Based on the current projections of student enrollment and property values, the negative factor is estimated to be approximately 12.97 percent. Thus, in FY 2011-12, each district's total program funding will be reduced by 12.97 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.

Low state aid districts. Seven school districts do not receive enough state aid to fully implement a 12.97 percent reduction in total program funding. As a result, the total program cuts for those districts will be proportionately smaller -- equal to the amount of state aid that the district currently receives. However, as described in the School District Impact section, the reduction in state aid for these districts will be supplemented by the use of each district's total program mill levy to buy down some of the state aid the district receives for categorical programs. The total funding change for these seven districts, loss of state aid combined with the total program mill levy reduction, is illustrated in Table 2.

Full day kindergarten. The reduction in per pupil funding for school districts will result in \$329,897 reduction in full-day kindergarten hold-harmless funding that some school districts would have received in FY 2011-12.

Facility school funding. The FY 2011-12 Long Bill includes an appropriation from the State Education Fund for facility school funding. This appropriation assumes a per-day payment for a certain number of child-days, based on the total program amount under current law. Because SB 11-230 reduces total program, the per day payment rate will fall, and the facility school funding line item from the State Education Fund will decrease by \$653,000.

State charter school institute (SCSI). The current appropriation for the SCSI is \$1,502,820. This amount cannot exceed 3 percent of the state share payments for the Institute Charter Schools in FY 2011-12. The SCSI appropriation is reduced by \$481.

Money generated from state lands. By extending the diversion of money away from the Public School Fund and into the State Public School Fund, the bill makes an estimated additional \$36 million for FY 2011-12 and FY 2012-13 available for public school finance. The total for FY 2011-12 includes \$20 million in rentals, royalties and bonuses, and \$16 million in interest earnings. Currently, similar totals are projected for FY 2012-13.

General Fund Surplus Transfer. Any General Fund money transferred to the State Public School Fund would be used to address changes in assessed values, pupil counts, at risk student counts, and specific ownership tax revenue.

Interest differential. The required transfer of money means that the Department of Natural Resources and the Department of Local Affairs will each have approximately \$102,000 less to spend annually from than they would otherwise. This money is used to fund a variety of programs including regulatory agencies, water projects, and energy impact assistance grants among other things.

School District Impact

Table 1 shows the estimate of school finance act funding under SB 11-230. The table compares FY 2011-12 funding levels with actual funding in the prior year. It also includes the impact of SB 11-157, signed into law by the Governor, which made mid-year adjustments to the budget stabilization factor and state aid for FY 2010-11 with federal funds.

Table 1. School Finance Act Funding under SB 11-230						
	Pupil Count	Per Pupil Funding	Total Program Funding	State Aid	Local Share	Federal Funds
FY 2010-11 Act.	798,677	\$6,813	\$5,441,603,049	\$3,206,388,882	\$2,018,856,003	\$216,358,164
FY 2011-12 Est.	805,891	\$6,468	\$5,212,694,674	\$3,336,345,165	\$1,876,349,509	\$0
Percent change	0.90%	-5.06%	-4.21%	4.05%	-7.06%	-100.00%
Increase	7,214	(\$345)	(\$228,908,375)	\$129,956,283	(\$142,506,494)	(\$216,358,164)

In addition, seven school districts that do not receive enough state aid for total program funding to enact a 12.97 percent reduction will see a loss of their existing state aid, plus they must use their total program mill levy to replace state funding for categorical programs to the degree possible or up to an amount equal to a 12.97 percent reduction in combined state funding for total program and categorical program funding. Three districts, Clear Creek, West Grand, and Park, will see a full 12.97 percent reduction in state funding for both total program and categorical programs. Three other districts, Debeque, Meeker and Pawnee, already buyout all or nearly all state funding for categorical programs, so the bill's reduction in state funding is relatively minor. The remaining district, Estes Park, will see a loss in state funding of 12.03 percent. Estimates of these changes for the seven districts are presented in Table 2.

**Table 2: SB 11-230 Impact for Districts
with Less Than 12.97 Percent State Aid for Total Program**

County	District	State Aid for Total Program	Total Program Mill Levy Categorical Buydown	State Finding for Categorical Programs	Total State Funding Change	% Change in State Funding
Clear Creek	Clear Creek	(\$658,789)	\$253,475	(\$253,475)	(\$912,264)	(12.97%)
Grand	West Grand	(\$490,907)	\$18,033	(\$18,033)	(\$508,940)	(12.97%)
Larimer	Estes Park	(\$699,547)	\$351,252	(\$351,252)	(\$1,050,799)	(12.03%)
Mesa	Debeque	(\$282)	\$22	(\$22)	(\$304)	(0.02%)
Park	Park	(\$395,871)	\$176,367	(\$176,367)	(\$572,238)	(12.97%)
Rio Blanco	Meeker	(\$15)	\$0	\$0	(\$15)	(0.00%)
Weld	Pawnee	(\$13)	\$0	\$0	(\$13)	(0.00%)
TOTAL		(\$2,245,424)	\$799,149	(\$799,149)	(\$3,044,573)	(9.53%)

State Appropriations

For FY 2011-12, the bill contains a \$460.7 million General Fund appropriation reduction for the Department of Education. In addition, the bill will require the following additional cash funds appropriations for the Department of Education:

- \$197,343,858 from the State Education Fund; and
- \$36 million from the State Public School Fund.

Departments Contacted

Education

Legislative Council Staff