

School Finance Update

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School Finance: Recent Changes

- K-12 Budget Cycle from the Legislative Perspective
- Proposition HH
 - Impacts on school districts
- New At Risk Measure
 - House Bill 22-1202
- Mill Levy Override Match Program
 - Senate Bill 22-202

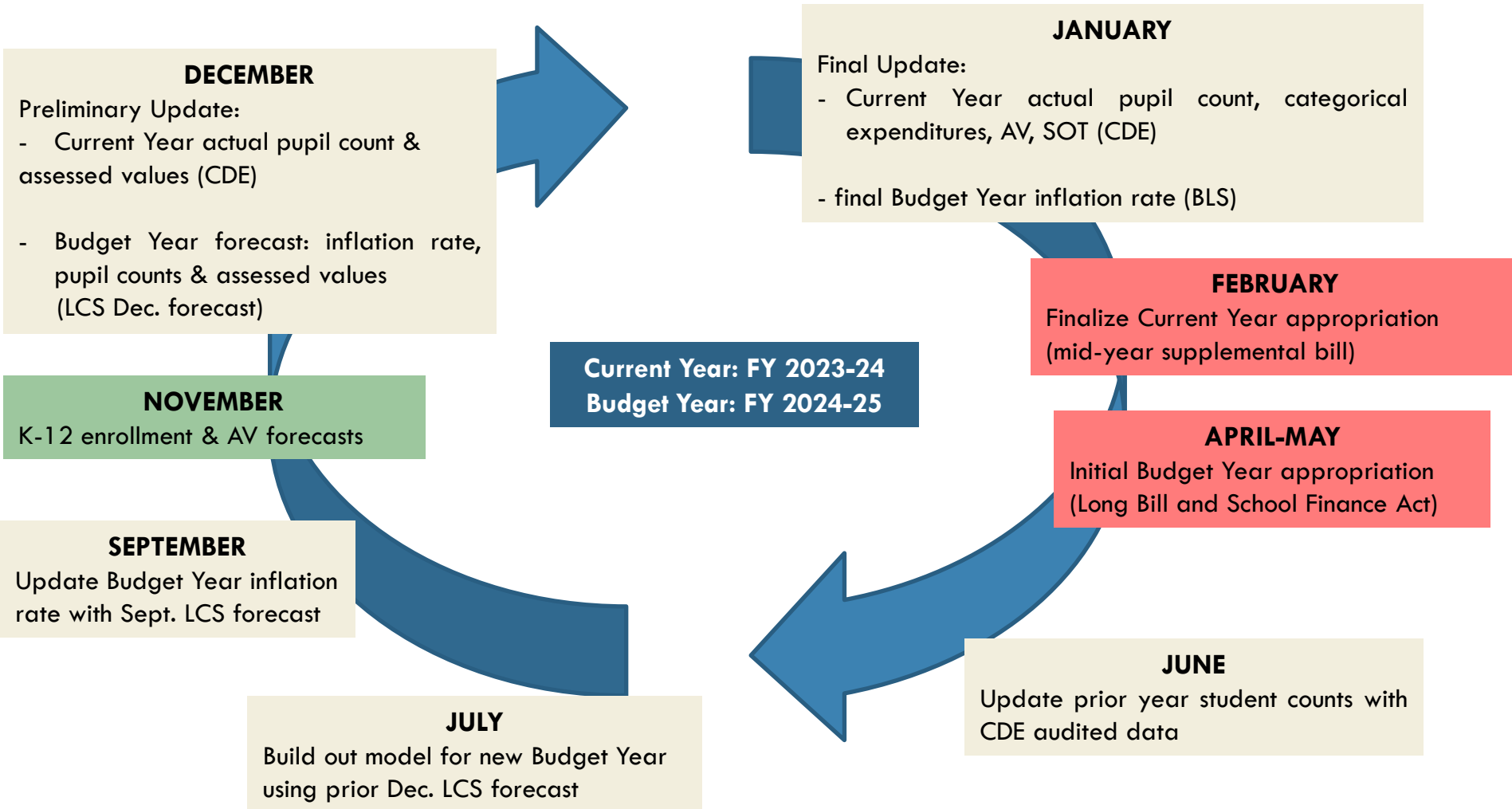


K-12 Legislative Budget Cycle & LCS Forecasts



Overview of K-12 Budget Cycle

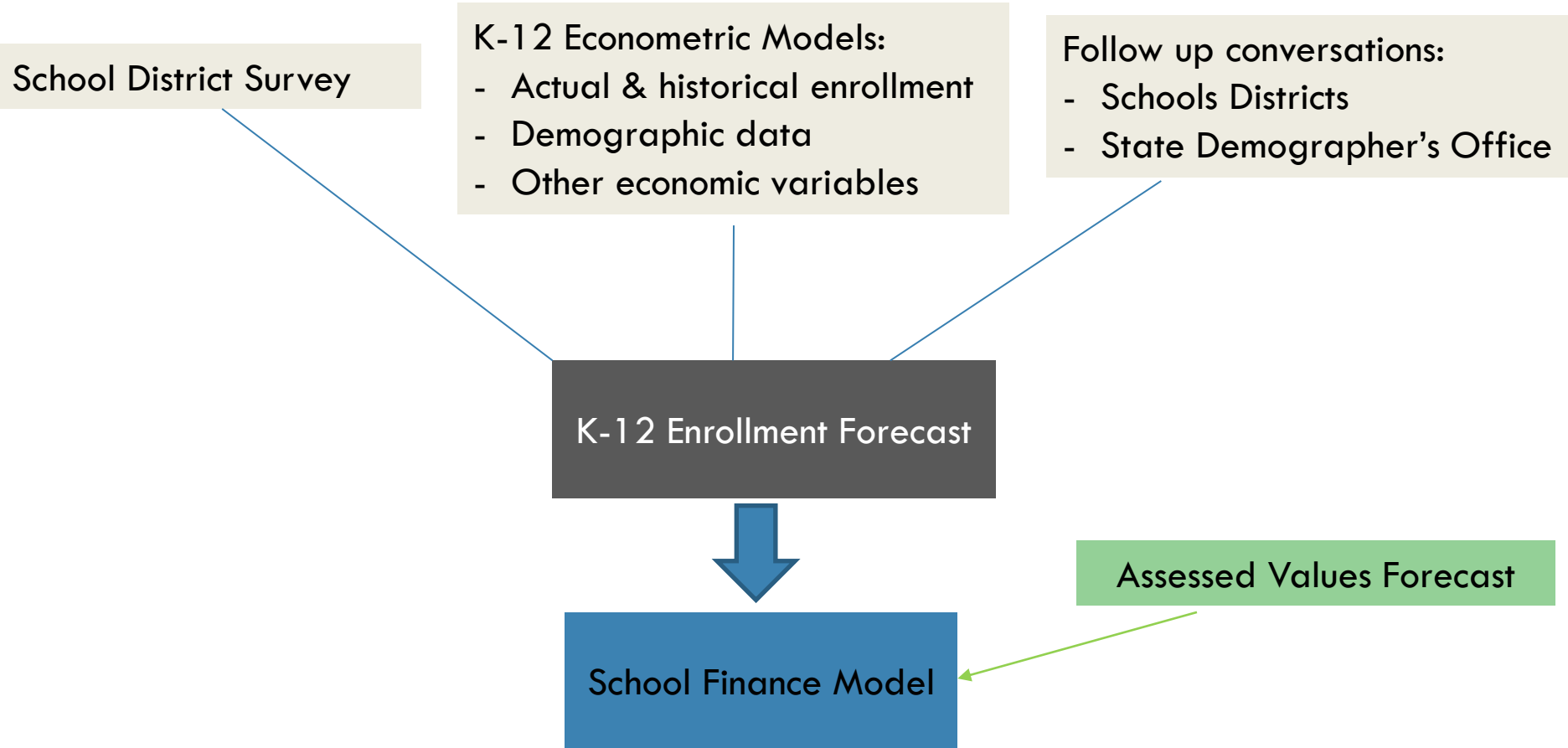
School Finance is a Year-Round Process for the Legislature



Legislative Council Staff Forecasts

- K-12 Enrollment
- Assessed Values
- Completed in November and December each year
- Used in the initial school finance appropriation that the General Assembly makes during the legislative session.

K-12 Enrollment Forecast



Proposition HH

Reduce Property Taxes & Retain State Revenue



A “yes” vote on Proposition HH would....

- lower property taxes owed for homes and businesses, compared to what would be owed under current law
- allow the state to retain money that would otherwise be refunded to taxpayers via TABOR refunds
 - Education (school finance backfill)
 - Rental assistance programs
 - Reimbursements to non-school district local governments for some of their reduced property tax revenue
- distribute TABOR refunds to taxpayers in equal amounts for tax year 2023; and
- create a new local government property tax revenue limit
(does not apply to school districts)

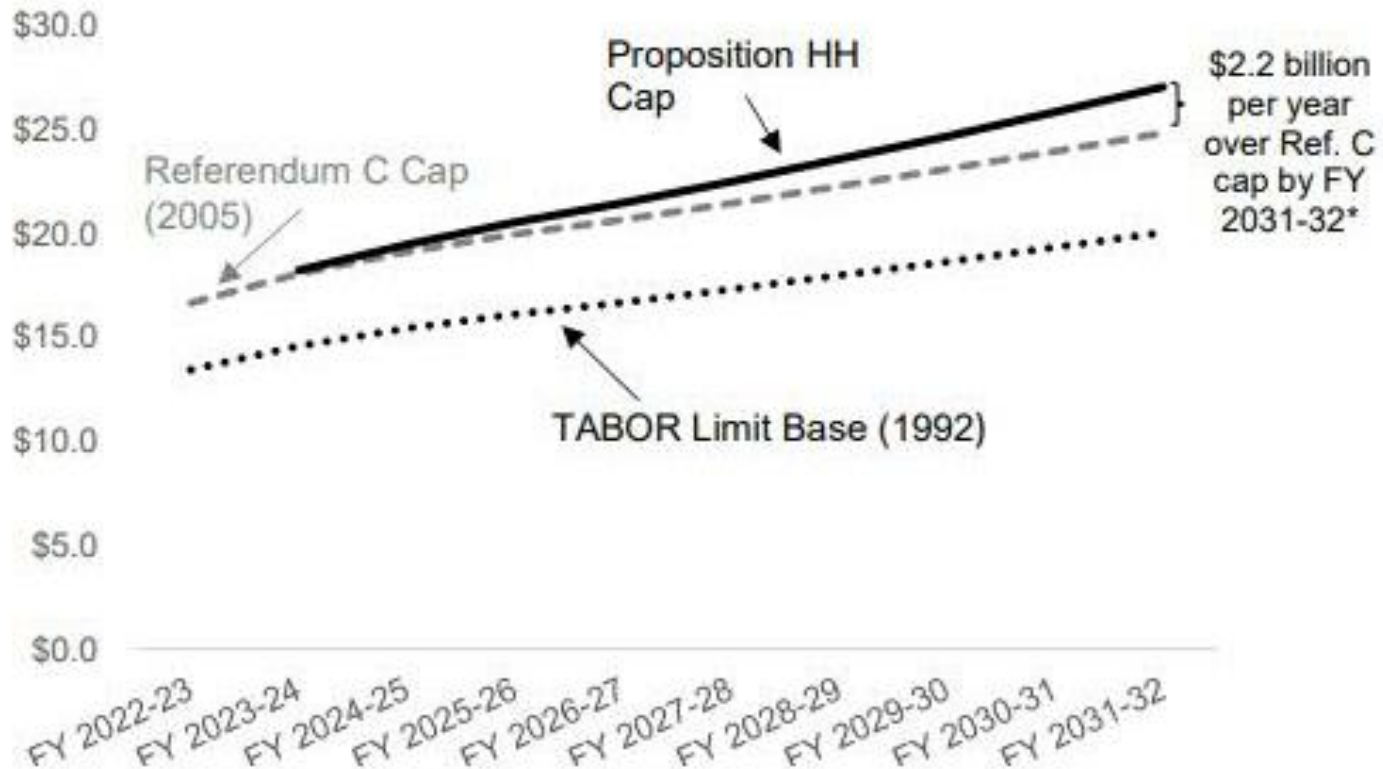
How do the property tax changes in Prop. HH impact school districts?

- Reduction in local share is backfilled by the state, through school finance formula
- Reduced local share / increased state share:
 - \$130 million in FY 2023-24
 - \$310 million in FY 2024-25
 - \$360 million in FY 2025-26
- May impact MLO revenue, depending on how the mills are established

How do the property tax changes in Prop. HH impact school districts?

- If mills generate **fixed revenue** then no impact:
 - Bonded indebtedness mills
 - Some mill levy overrides
- If mills are set at a **fixed level**, then there's an impact:
 - Total program mills
 - Some mill levy overrides

How do the TABOR changes in Prop. HH impact school districts?



**Assumes inflation through 2025 from the June 2023 Legislative Council Staff forecast and 2.5 percent annual inflation for 2025 to 2031. Population growth projections from the Colorado State Demography Office.*

How do the TABOR changes in Prop. HH impact school districts?

- State retains an estimated \$170 million in FY 2023-24 and \$360 million in FY 2024-25.
- Deposited in the State Education Fund:
 - \$150 million in FY 2024-25
 - \$270 million in FY 2025-26
 - Larger amounts in future years, but it depends on state revenue collections
- Used to backfill the reduced local share from the property tax changes, through the school finance formula

Other provision in Prop. HH that impact school districts

- Delays property tax deadlines in this year only
- Certification of mill levies delayed from December 15 to January 5
- Assessors notification of any adjustments in assessed values delayed from December 10 to December 29

How does Prop. HH impact individual taxpayers?

Property tax savings

- depends on property value, type, and location

TABOR refund changes

- 2023: flat refund amounts (\$898 single, \$1,796 joint)
Increase for low/middle income
Decrease for high income
- Beginning in 2024: reduced refunds in years when the state collects revenue above new Prop. HH cap

Blue Book Calculator Tool
<https://hhcalc.apps.coleg.gov>



Implementation of New At Risk Measure



New At Risk Measure (Number Students At Risk)

- Current measure (free/reduced lunch) no longer reliable due to universal free meal policies
- HB22 -1202 specified a new measure based on similar measure used in Maryland and Texas
- SB23 - 287 extended implementation to FY 2024-25
- At Risk Count =
Identified Student Percentage (*ISP*) * (w_1)
+
Neighborhood Socioeconomic Economic Status (*NSES*) * (w_2)

Note: w_i 's are weights that have yet to be determined.

Identified Student Percentage (*ISP*)

- *ISP* includes students directly certified (DC) and students categorically eligible (CE) for free meals
- Directly certified students are enrolled in SNAP, TANF and Medicaid
- Categorically eligible students are homeless, in foster care or migrant
- District *ISP* equals its share of DC and CE students times its membership.

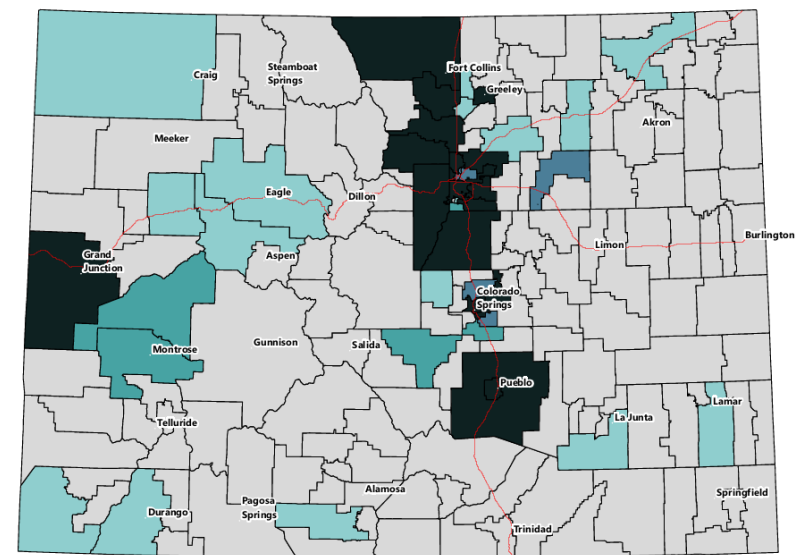
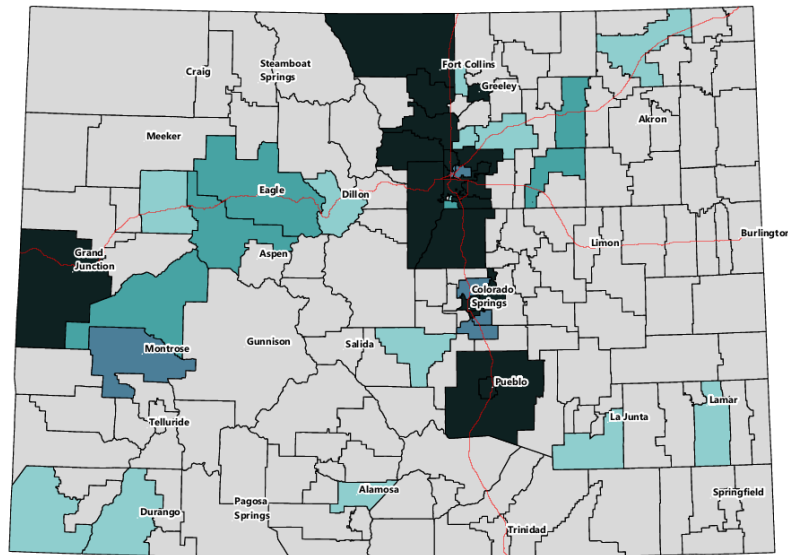
$$- \text{ISP}_i = \frac{(\text{DC}_i + \text{CE}_i)}{(\text{FTE}_i)} * M_i$$

- Data submitted to CDE in mid-October
- Audited data available in early December

Estimated At Risk vs Preliminary ISP Counts (FY 2023-24)

Estimated Free and Reduced

Preliminary ISP Counts SNAP, TANF and Medicaid (F&R)

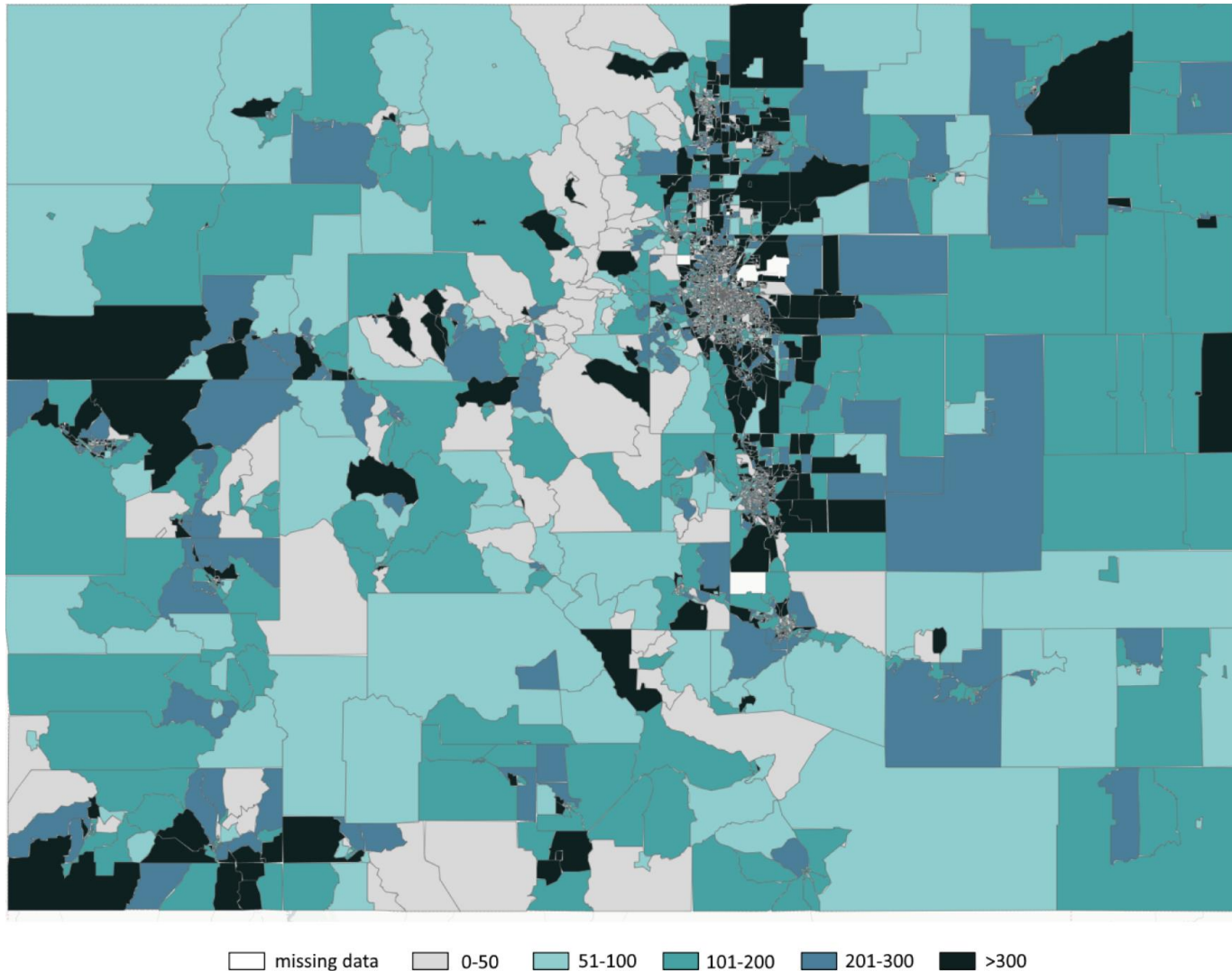


Neighborhood Socioeconomic Status Measure (NSES)

- *NSES* is a weighted measure of the socioeconomic characteristics of a student's residential neighborhood measured by the American Community Survey
- Census Block Groups (CBGs) are statistical divisions of Census tracts containing between 600 – 3,000 people
 - used as a proxy of a neighborhood
- District NSES is the weighted average of student counts in each quintile of need, across CBGs within the district, times the district membership
 - $$NSES_i = \frac{\sum_{j=1}^5 (N_{ij} * w_j)}{\sum_{j=1}^5 (N_{ij})} * M_i$$
 - w_j is the weight assigned to the student count in each quintile
 - N_j are number of students in each quintile of need in each district

Map of At-Risk Student Counts in CBGs

(Data Modeled by the Urban Institute)



Process for Calculation of NSES Measure

- Districts provide CDE with student counts by residential neighborhoods (CBG is proxy) using Census tool.
- CDE calculates quintile of “need” for each CBG using data from the American Community Survey.
- CDE determines student counts for each district residing in each quintile of “need”.
- NSES for each school district is a weighted share of students exhibiting need, as determined by the socioeconomic characteristics of the CBG in which they reside.

ACS Measures of Need in NSES Component (*Neighborhood Socioeconomic Characteristics*)

- Share of students in same residence as last year (-)
- Share of adults (>25) college educated (-)
- Median household income (-)
- Average ratio income/housing cost (-)
- Share of children (<18) adopted, living with foster parents, or living with relatives (+)
- Share of occupied housing units with > 0.5 occupants per room (+)
- Share children (5-17) that are English Language Learners (+)

Implementation Challenges for New At Risk Measure

- Legislative Issues
 - Determine weights for ISP and NSES measures
 - Determine weights for quintiles of need in the NSES measure
 - Hold harmless (count equalization factor or otherwise)
 - Potentially addressed by the School Finance Task Force
- Logistical Issues
 - Actual student counts by CBG not available until FY 2024-25
 - For initial appropriation, CDE using data from 5 – 20 volunteer districts to compare actual counts with modeled counts from Urban Institute

Mill Levy Override Match Program: How Does It Work? Who's Eligible?



Mill Levy Override (MLO) Background

Voter Approved Mills Above Total Program Mills

- MLOs levied since 1996-97
- MLO revenue capped at percent of total program
 - 25 percent for urban, rural districts
 - 30 percent for small rural districts
- In FY 2022-23:
 - 114 of 178 districts levy voter approved MLOs
 - MLO revenue totaled \$1.5 B ~ 43 percent of local share
 - 13 districts have voter permission to float to cap
 - 18 districts with revenue at least 95% of cap

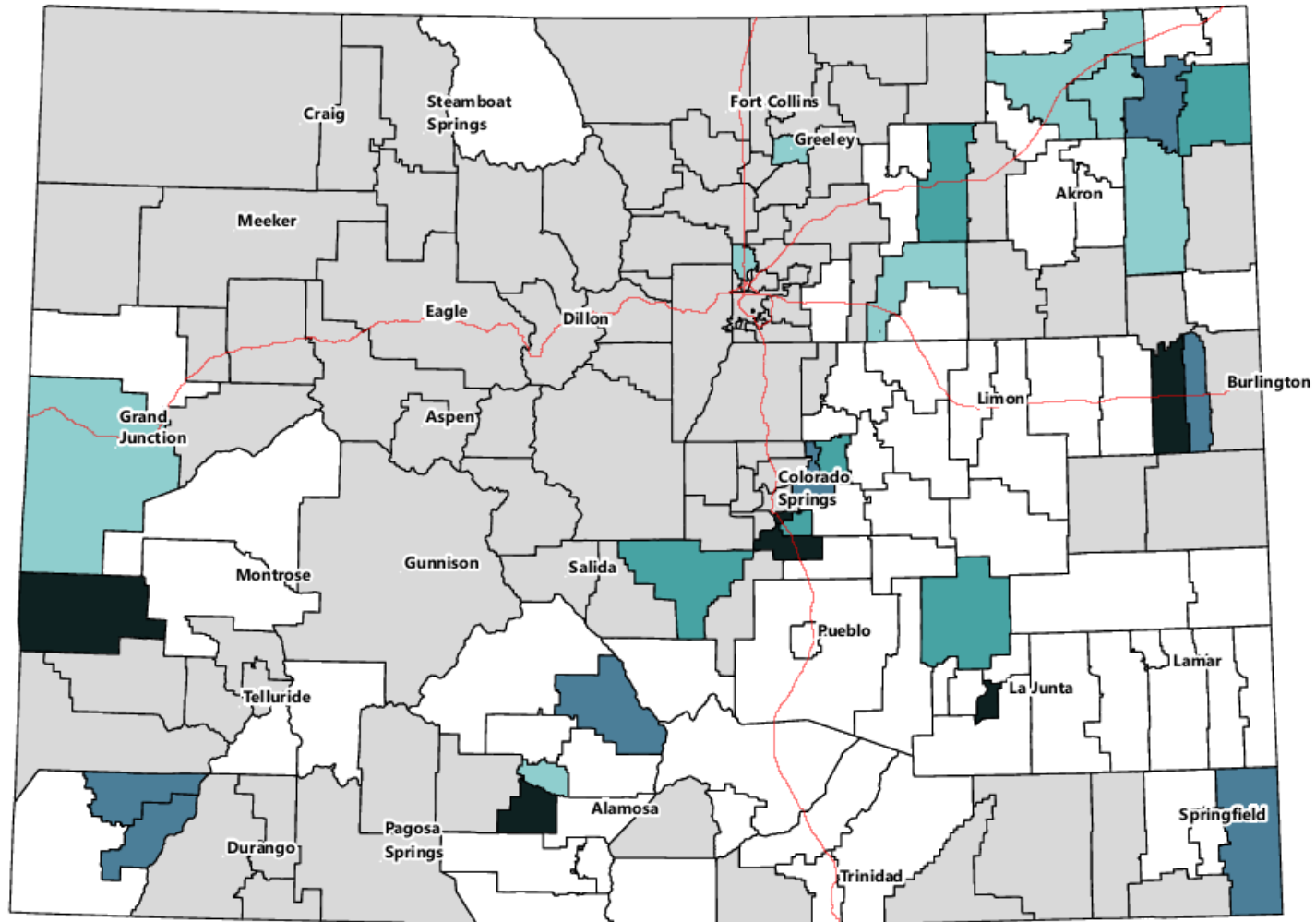
Mill Levy Override State Match Program

Senate Bill 22-202

- Provides state match to eligible districts with MLO's
 - Matches only voter-approved mills (not hold-harmless)
 - Allocation determined by CASE spreadsheet model
 - Eligibility = $f(\text{Assessed Value, Median Income, VA MLO's})$
 - Supports districts with low property wealth
 - Incentivizes districts to provide MLO effort
- Summary of MLO matches under the CASE model
 - Annual appropriation required
 - In FY 2022-23, 27 of 114 districts eligible - \$10 M
 - In FY 2023-24, 26 of 114 districts eligible - \$23.4 M
 - Potentially, 72 of 178 districts eligible - \$115.2 M
 - Mills certified in December, match payments made in June

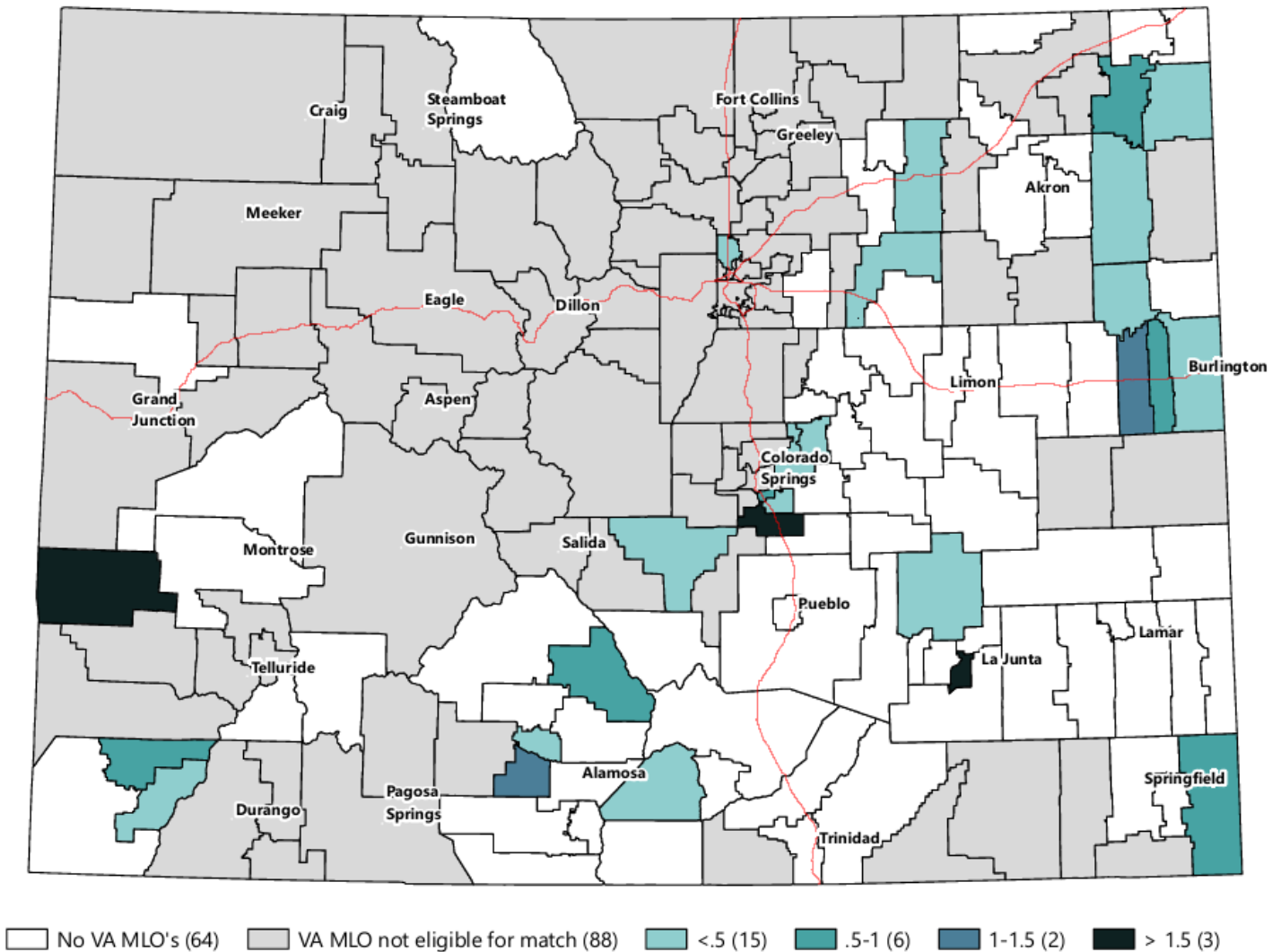
Return on Investment from 1 Mill Local Effort

Eligible Districts, FY 2022-23, \$10 Million Appropriation



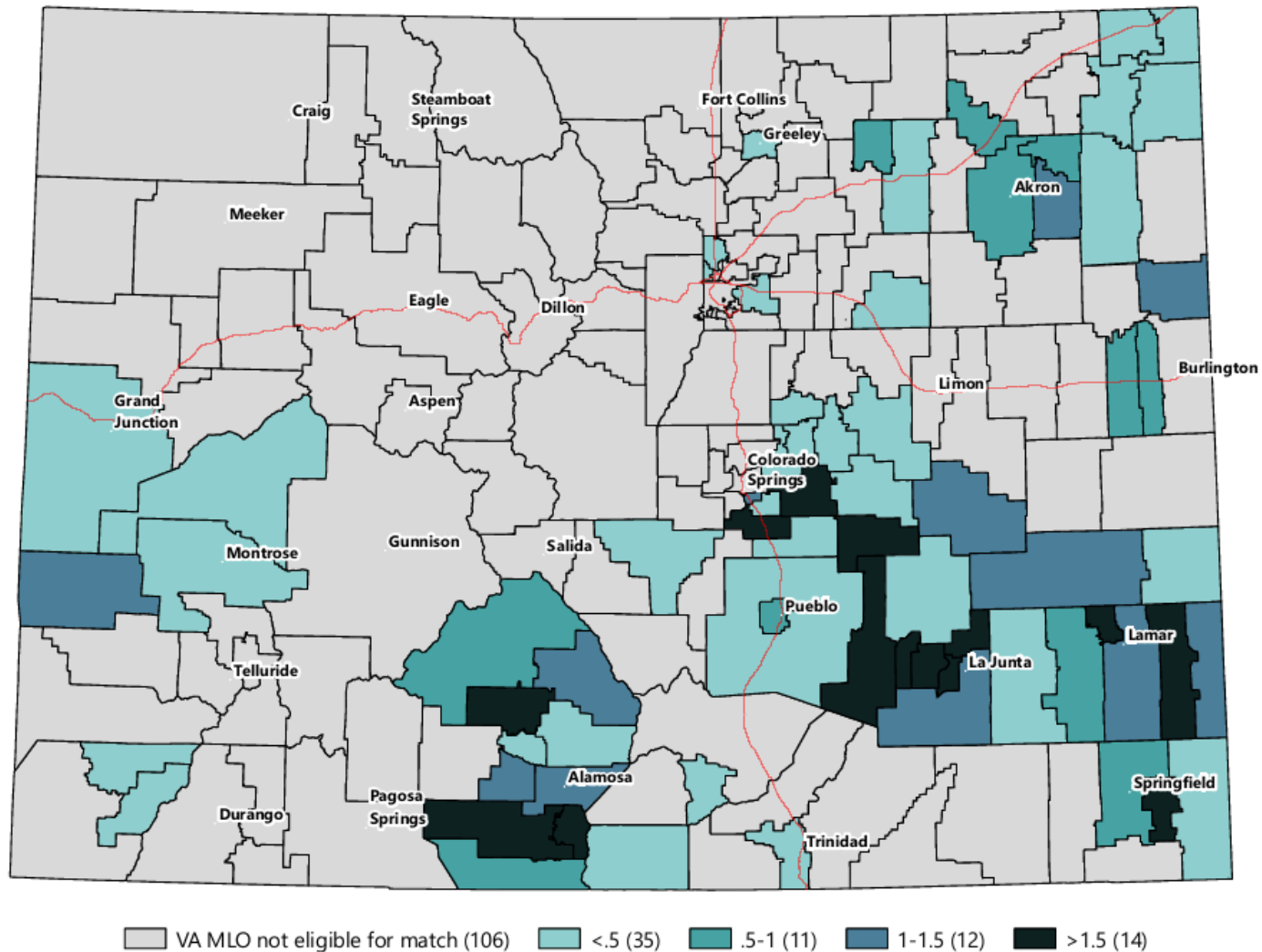
Return on Investment from 1 Mill Local Effort

Eligible Districts, FY 2023-24, \$23.4 Million Appropriation



Return on Investment from 1 Mill Local Effort

Currently and Potentially Eligible Districts, FY 2023-24



Questions?

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Extra Slides.....



Changes to Property Taxes

- Results in a smaller increase in property taxes
- Makes these reductions by:
 - Lowering assessment rates and creating a subtraction from actual value for residential and most non-residential property
 - Distinguishing owner-occupied primary residences from other residential properties
 - Allowing a senior who has qualified to for the senior homestead exemption in the past to be eligible for the same benefit in any home they purchase and live in as their primary residence
 - Creating a local government property tax limit.
Does not apply to school districts

What if Prop. HH fails?

- In 2022, the legislature passed a two-year, \$700m cut to property taxes (SB22-238).
- \$575 million in cuts made in 2023, \$125 million remaining in 2024
- Remains in place if Prop HH fails
- No changes to TABOR refunds or the amount of state revenue retained

Senate Bill 22-238

Two year, \$700M cut to property taxes

Property Tax Year 2023 (paid in 2024 / FY 2023-24)

- Cuts RAR to **6.765** % from (6.95 % SF/6.80 % MF)
- Cuts NRAR to **27.9** % (from 29.0 %)
- Assessment rates apply to actual values less \$15k for residential and \$30k for improved commercial property

Property Tax Year 2024 (paid in 2025 / FY 2024-25)

- Cuts ag/renewable NRAR to **26.4** % (from 29.0 %)
- Cuts Multifamily RAR to **6.80** % (from 7.15 %)
- Cuts Single Family RAR to **???** % (from 7.15 %)
 - Determined so as to cause a \$700M total cut over two years
 - Legislative Council Staff projects this at **6.922**%

RECENT HISTORY OF PROPERTY TAX CHANGES

- In 2020, voters repealed Gallagher Amendment
- Gallagher (1983) required 45/55 split in aggregate residential/nonresidential assessed values
- Split maintained by fixing NRAR and allowing RAR to float up or down
- TABOR (1992) meant RAR could only decline
- From 1983 to 2019, RAR fell from 21 percent to 7.15 percent
- In 2020 session, GA statutorily fixed assessment rates at 29 percent and 7.15 percent