School Finance Update

Craig Harper
Chief Budget Analyst, Joint Budget Committee Staff

Marc Carey
Chief School Finance Officer, Legislative Council Staff

November 11, 2022
Colorado School Finance Project
School Finance: Recent Changes

• Overview of K-12 Budget Cycle

• Recap Changes from 2022 Session
  – House Bill 22-1390
  – House Bill 22-1202
  – House Bill 22-1295
  – Senate Bill 22-127

• Governor’s Request for 2023 Session

• Mill Levy Override Match Program
  – Senate Bill 22-202

• Recent Property Tax Changes
  – Senate Bill 22-238
Overview of K-12 Budget Cycle
School Finance is a Year-Round Process

JULY
Build out model for new Budget Year using prior December LCS forecast

SEPTEMBER
Update Budget Year inflation rate with September LCS forecast

OCTOBER
K-12 enrollment forecast process begins with school surveys

DECEMBER
Preliminary Update:
- Current Year actual pupil count & actual assessed values (CDE)
- Budget Year forecast: inflation rate, pupil counts & assessed values (LCS December forecast)

JANUARY
Final Update:
- Current Year actual pupil count, categorical expenditures, AV, SOT (CDE)
- final Budget Year inflation rate (BLS)

FEBRUARY
Finalize Current Year Appropriation with passage of mid-year supplemental bill

APRIL-MAY
Initial Budget Year Appropriation with passage of Long Bill and School Finance Act

JUNE
Update prior year student counts with CDE audited data

Current Year: FY 2022-23
Budget Year: FY 2023-24
Changes in School Finance
Recap of the 2022 Legislative Session
HB22-1390 School Finance Bill

Key Financial Provisions

• Increases base per pupil funding to $7,478 (3.5% increase)
• Sets BS factor at $321.2 million (3.67%)
• Sets total program after BS factor at $8.4 billion
  – $5.1 billion state share (60%)
  – $3.4 billion local share (40%)
• Increases avg. PPF by $545 to $9,559 (6.0%)
• Allows districts to carry over more than 15% of READ Act per-pupil intervention funds for use in FY 2022-23
• Removes statewide cap on number of ASCENT students
  – allows district to designate participation eligibility
  – reduces number of postsecondary credit hours required prior to 12th grade in order to participate in ASCENT
  – Increase estimated at 350 students, costing $2.1 million
Funding Changes from Other Legislation

2022 Legislative Session

• House Bill 22-1202
  – establishes new at-risk measure for FY 2023-24 based on
    • district % students eligible for free lunch (receipt of public benefits or categorical eligibility) and direct certification for receiving Medicaid or Children’s Basic Health Plan
    • neighborhood socioeconomic status index depending on at least 5 socioeconomic factors linked to student census block.
  – establishes working group to determine the specific measure
  – recommendations due to legislature on January 31, 2023

• House Bill 22-1295
  – Creates universal preK program in Dept of Early Childhood - FY 2023-24
  – removes SPED and CPP slots from FPC in school finance formula
  – funding attributable to CPP transferred to universal preschool program
  – holds district preschool funding harmless in FY 2023-24

• Senate Bill 22-197
  – increases special education categorical funding by $80 million
  – increases per pupil funding for Tier A students from $1,250 to $1,750
  – Increases funding for Tier B students by up to $26.8 million
Governor’s November 1 Request for FY 2023-24
Key Points of the Governor’s FY 2023-24 Request (which will be adjusted again in January)

• For School Finance, the request includes an increase of $703 million total funds, including:
  – $473 million in state funds.
  – An assumed $230 million increase in local funds.

• That request is largely to cover the inflationary increase which would hold the BSF Flat at $321 million but the proposal includes a $35 million reduction to the BSF (to $286 million). BSF drops from 3.7% to 3.0%.

• Request also includes a $36 million inflationary increase for categorical programs and would target $29 million of that amount to special education.
  – Includes a legislative proposal to increase Tier A funding from $1,750 to $1,850 and Tier B from $4,318 to $5,202.
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 2021-22:
  – 124 of 178 districts levy MLOs currently
  – Revenue totaled $1.4 billion – 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(Assessed Value, Median Income)
  – Supports districts with low property wealth
  – Incentivizes districts to provide MLO effort

• Summary of MLO matches under the CASE model
  – Currently, 26 of 124 districts eligible - $67.2 M
  – Potentially, 72 of 178 districts eligible - $163.1 M
  – Appropriated at $10 M
  – Mills updated in December, match payments made in June
Return on Investment from 1 Mill Local Effort

Currently Eligible Districts
Return on Investment from 1Mill Local Effort
Currently and Potentially Eligible Districts
Local Government Property Taxes:
What’s Changed? What Happens Next?
**Historical Context**

- 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
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%
Senate Bill 22-238 Reduces Tax Base

Local gov./school dist. revenue impact depends on tax structure

• If mills generate **fixed revenue** then no impact
  – Bonded indebtedness mills
  – Some mill levy overrides

• If mills are set at **fixed level**, then there’s likely an impact
  – Total program mills
  – Some mill levy overrides

• Exception may occur when revenue is otherwise constrained
  – District is at 25%/30% mill levy override revenue cap
State Backfill of Lost Property Tax Revenue
(Property Tax Year 2023 Only)

State backfill for lost revenue for non-school district locals depends on county population & changes in AVs

- In counties with ≤300k population:
  - if countywide AVs grow by <10% in 2023, 100% backfill (Pueblo here)
  - if countywide AVs grow by ≥10% in 2023, 90% backfill

- In counties with >300k population:
  - municipalities, water districts, fire districts, sanitation districts, health service districts, and library districts get 100% or 90% backfill, as determined above
  - counties, all other special districts receive 65% backfill

No independent state backfill for school district revenue

- Total program mills backfilled through school finance formula
- Revenue loss from all other mills not backfilled
Questions?

Craig Harper
Chief Budget Analyst • Joint Budget Committee Staff
craig.harper@state.co.us • 303-866-3481
www.leg.colorado.gov/jbc

Marc Carey
Chief School Finance Officer • Legislative Council Staff
marc.carey@state.co.us • 303-866-4102
www.leg.colorado.gov/lcs