

# School Finance Update

Craig Harper

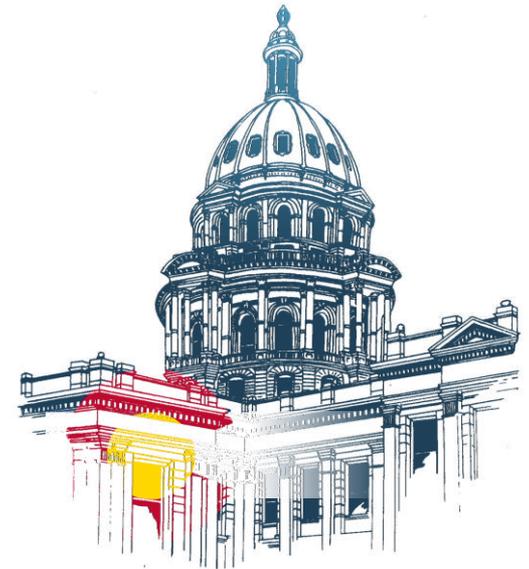
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Colorado School Finance Project



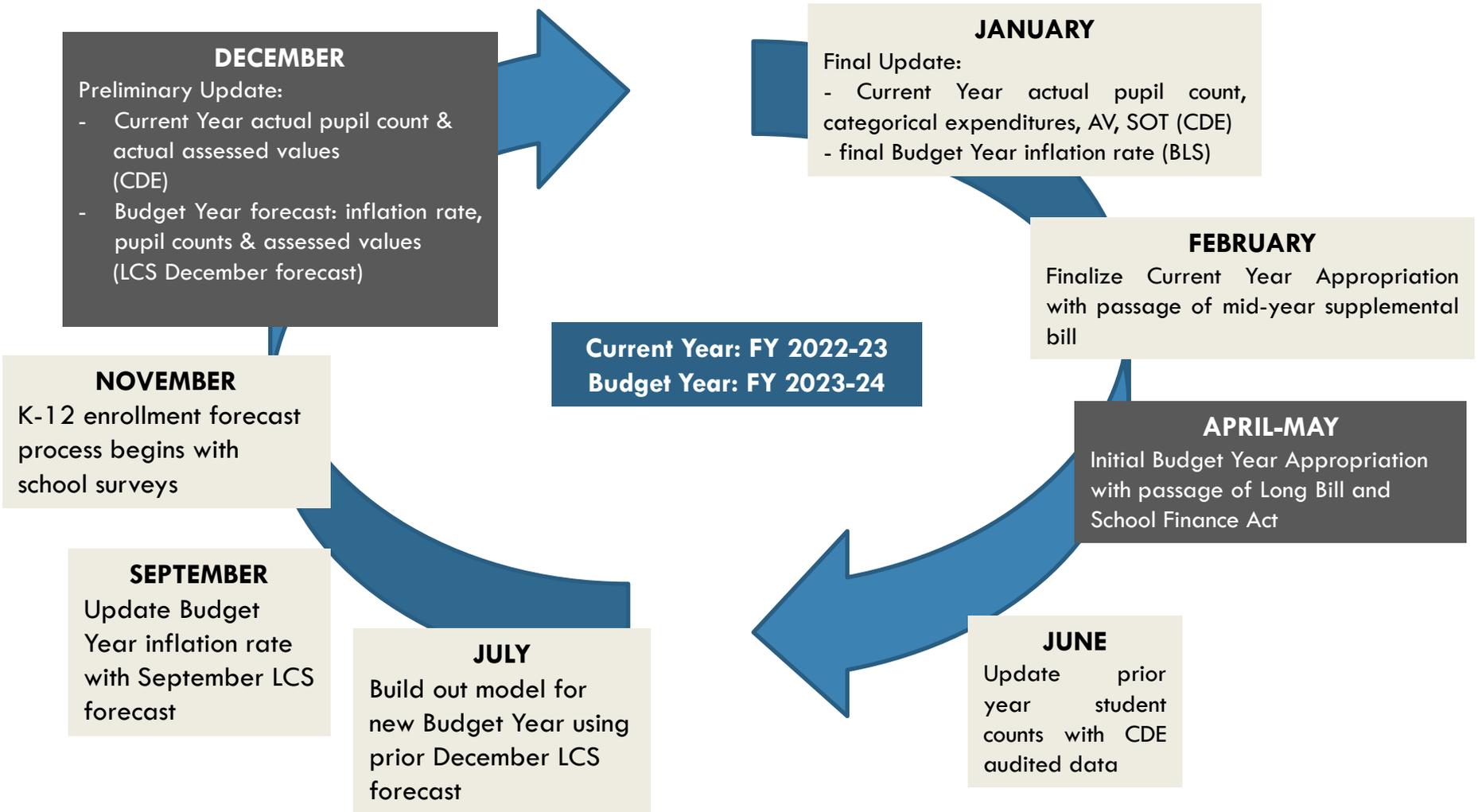
# School Finance: Recent Changes

- 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



# 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 12<sup>th</sup> 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

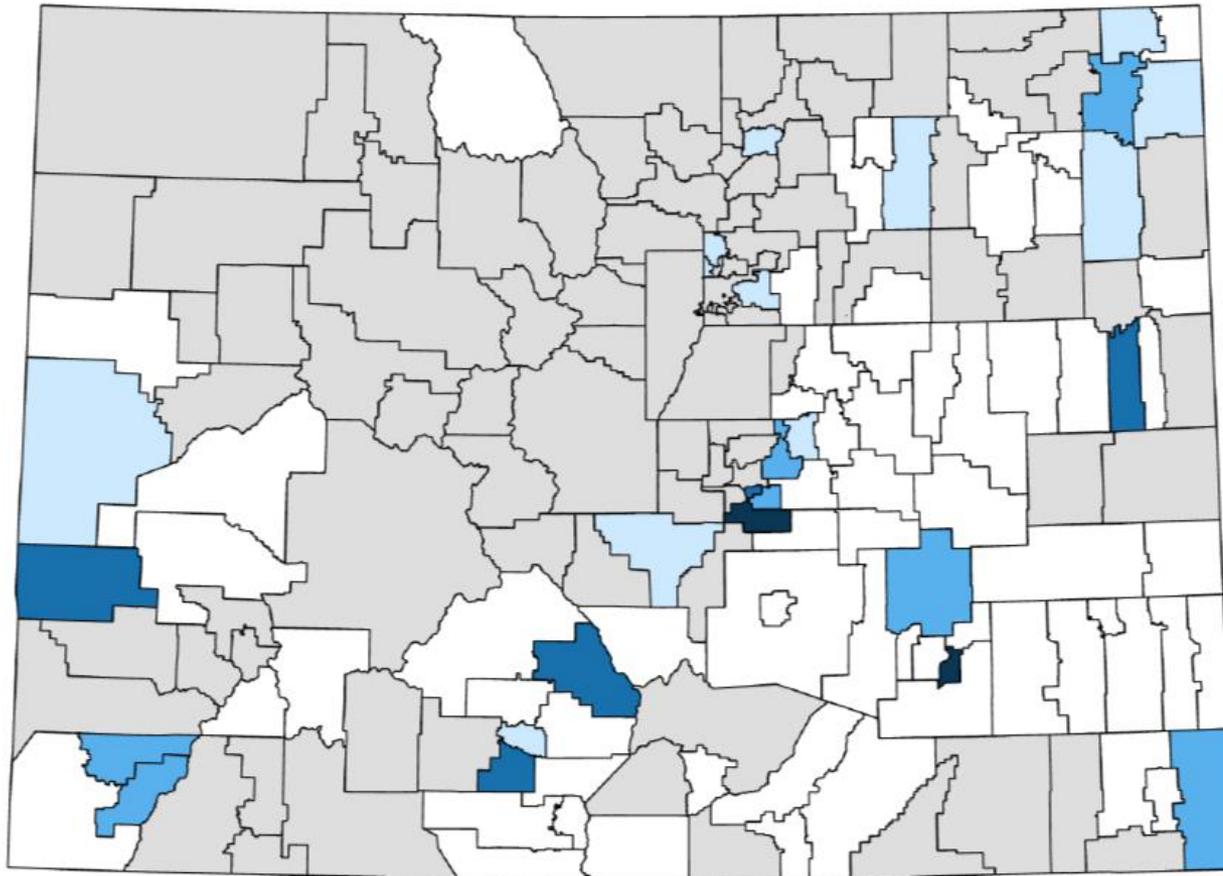
# Mill Levy Override State Match Program

## 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 =  $f(\text{Assessed Value, Median Income})$
  - 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

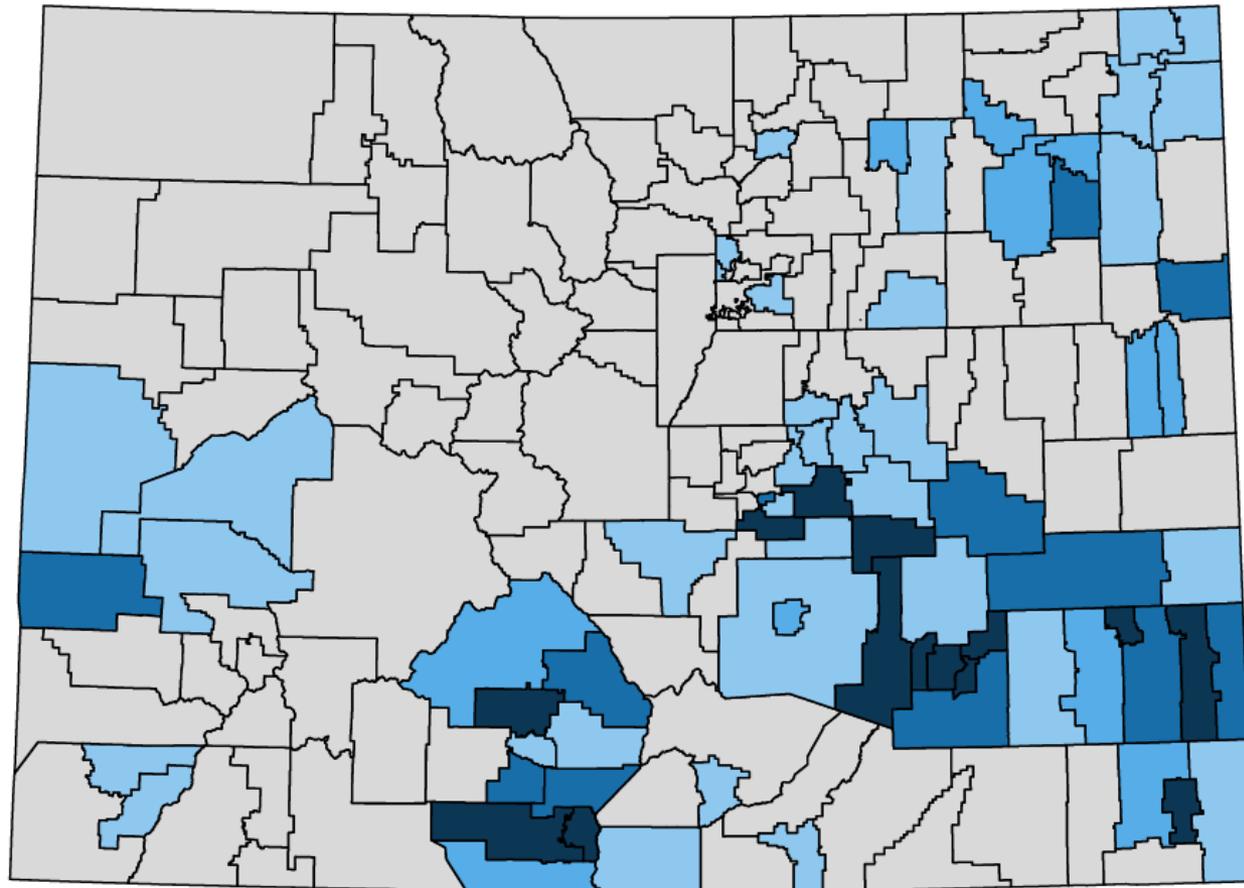
## Currently Eligible Districts



□ No VA MLO's (62)   □ VA MLO not eligible for match (90)   □ <.05 (12)   □ .05-.1 (7)   □ .1-.25 (5)   □ >.25 (2)

# Return on Investment from 1 Mill 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  $\leq 300k$  population:
  - if countywide AVs grow by  $< 10\%$  in 2023, 100% backfill (**Pueblo here**)
  - if countywide AVs grow by  $\geq 10\%$  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?

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