

School Finance Update

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Colorado School Finance Project



Impending Legislation in School Finance

- School Finance Act
 - Overview of HB22-1390
 - Review Changing Economic Factors affecting BS Factor Buydown Level
- Mill Levy Override State Match
 - Overview of SB22-202
 - Map of Currently Eligible Districts
 - Map of Potentially Eligible Districts



HB22-1390 School Finance Bill

Overview

- Increases base per pupil funding to \$7,478 (3.5%)
- Sets BS factor at \$321.2 million
- Allows districts to carry over more than 15% of READ Act per-pupil intervention funds for use in FY 2022-23
- Extends the following:
 - dyslexia and K-5 social emotional health pilot programs
 - deadline for small rural districts unable to retain an auditor to complete required annual audit
 - deadline for schools to change their school mascot if the mascot violates the state prohibition on American Indian mascots
 - requirement that BOCES obtain permission from a school district before authorizing a school in the district

HB22-1390 School Finance Bill

Factors Affecting Decisions on BSF Buydown

JBC Recommendation

- Feb: BSF to \$261.6 M (2022-23); \$0 (2023-24)
- March: BSF to \$321.2 M (2022-23); Hold (2023-24)

What Changed?

- Inflation Expectations
 - December: 3.4% (FY 2022-23); 1.8% (FY 2023-24)
 - March: 7.0% (FY 2022-23); 3.4% (FY 2023-24)
- Local Share Uncertainty
 - December: \$473 M or 14.1 % increase (FY 2023-24)
 - March: Ballot measures limit AV growth Min {inflation, 3%}
- New Cost of Living Factors (FY 2022-23, FY 2023-24)

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
 - 4 districts at Revenue Cap Currently

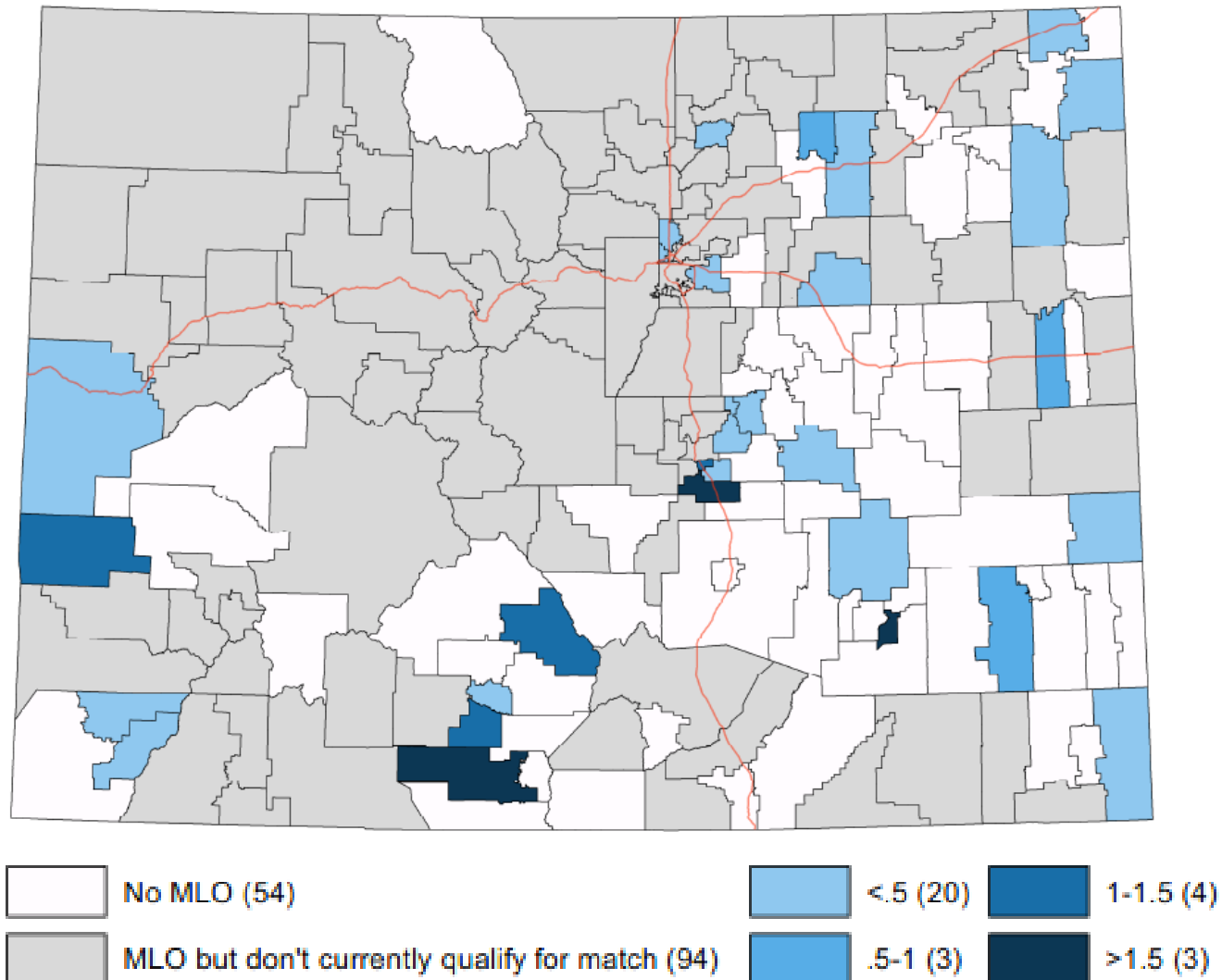
Mill Levy Override State Match Program

Senate Bill 22-202

- Provides State Match Eligible Districts with MLO's
 - 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, 30 of 124 districts eligible - \$65.4 M
 - Potentially, 72 of 178 districts eligible \$165.4 M
 - Likely to cap appropriation at lower level

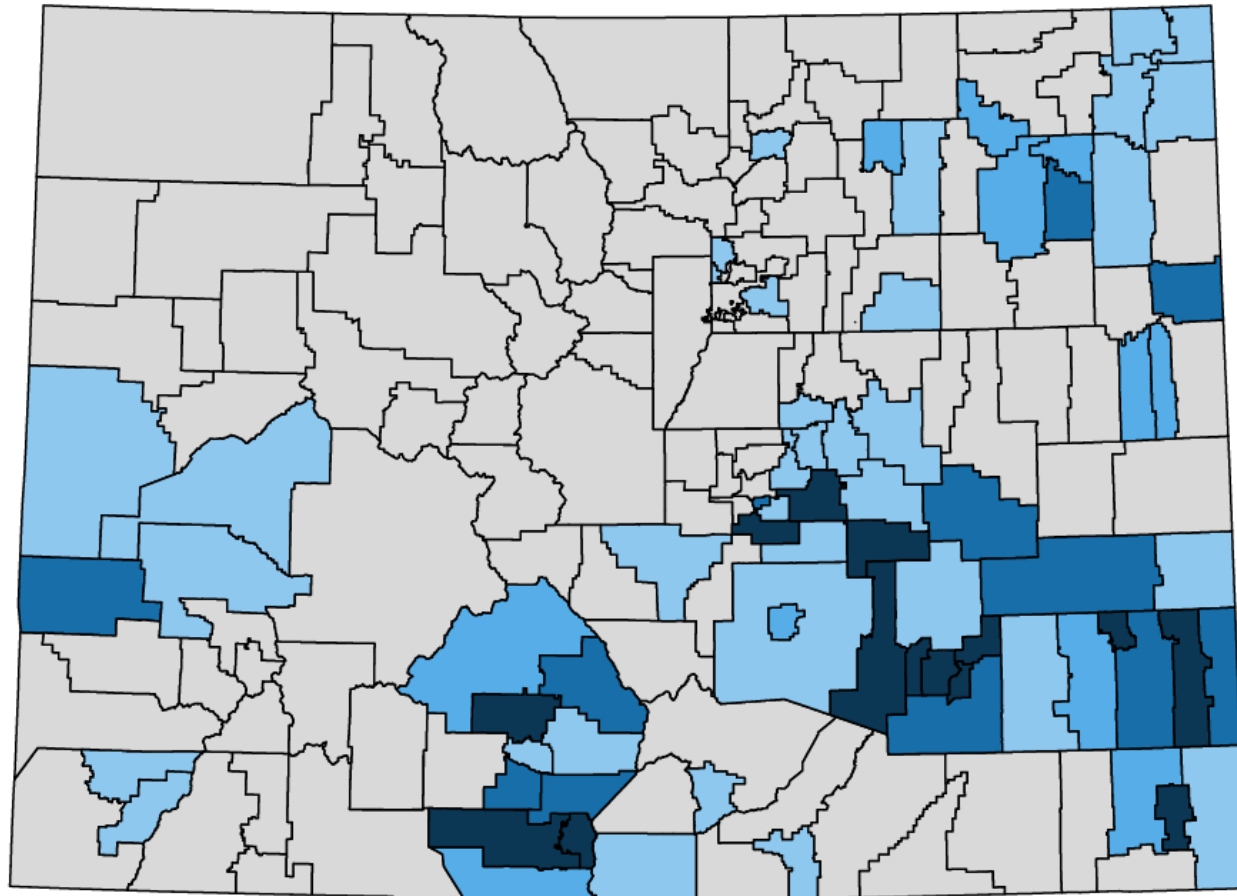
Return on Investment from 1 Mill Local Effort

Currently Eligible Districts



Return on Investment from 1 Mill Local Effort

Currently and Potentially Eligible Districts



Questions?

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March 2022 | Legislative Council Staff

Economic & Revenue Forecast

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Colorado School Finance Project
April 22, 2022

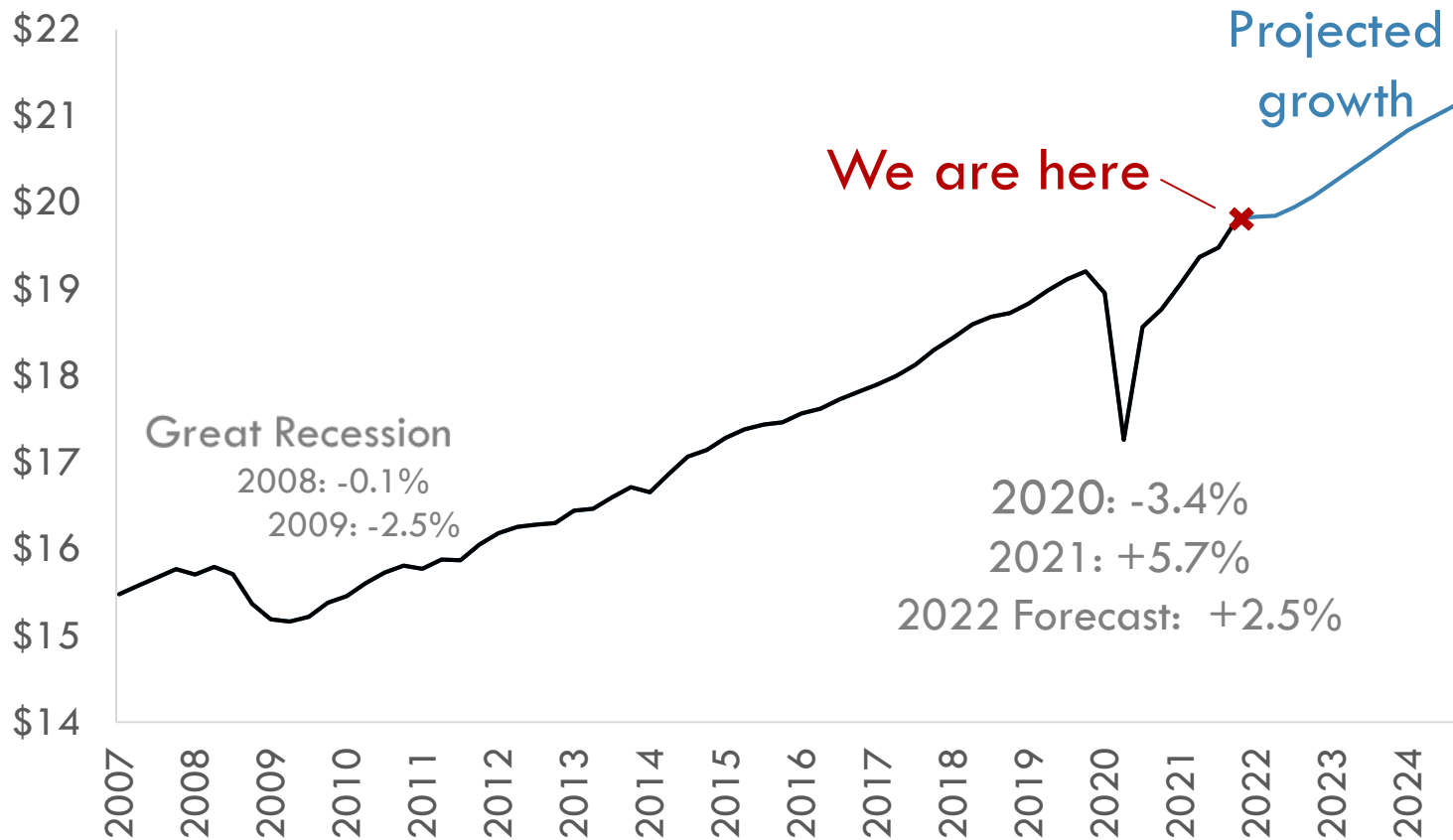
Economic Outlook



The economy continues to recover, near-term risks are elevated

Real U.S. Gross Domestic Product

Dollars in Trillions



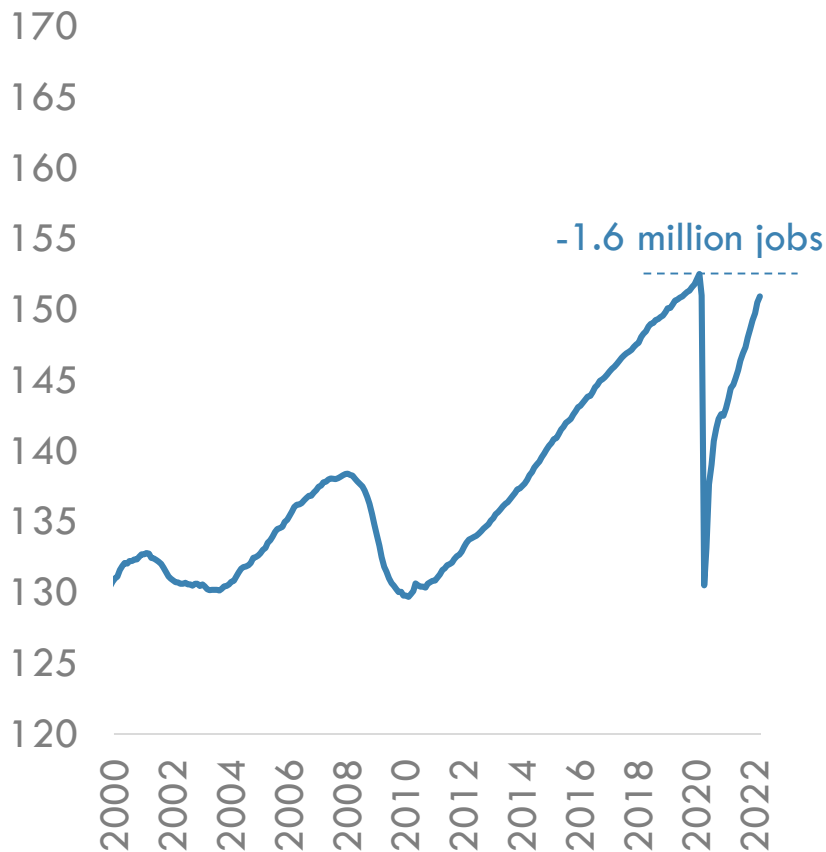
Source: U.S. Bureau of Economic Analysis and Legislative Council Staff March 2022 projections.

Real GDP is inflation-adjusted to chained 2012 levels and shown at seasonally adjusted annualized rates.

99% of jobs recovered nationally, Colorado jobs exceed pre-pandemic levels

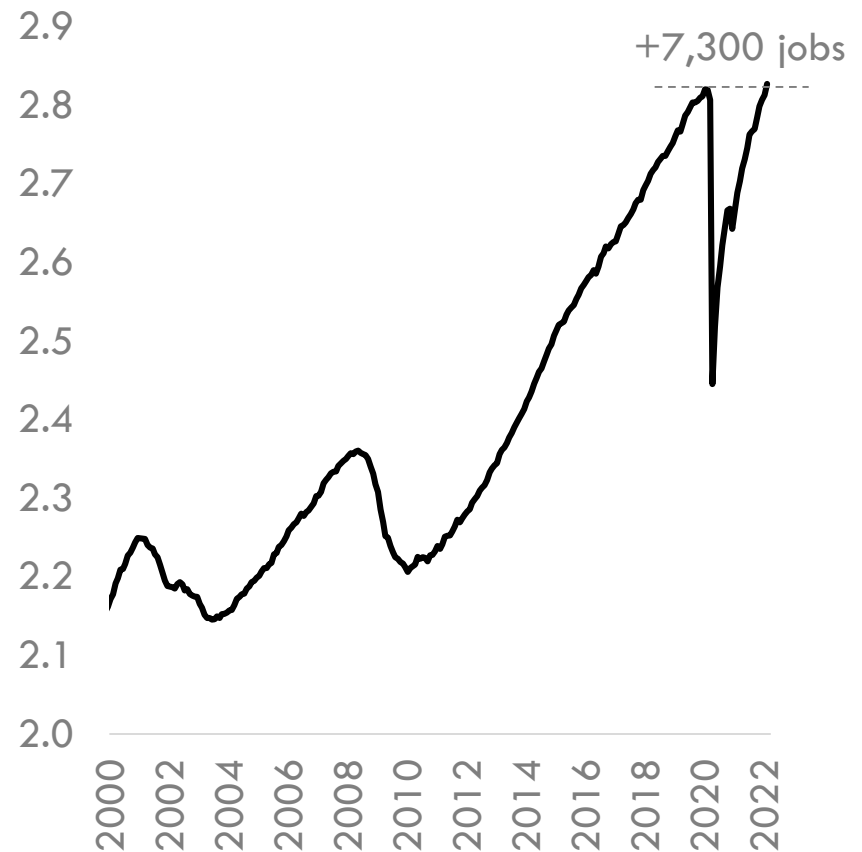
U.S. Nonfarm Employment

Millions of Jobs



Colorado Nonfarm Employment

Millions of Jobs

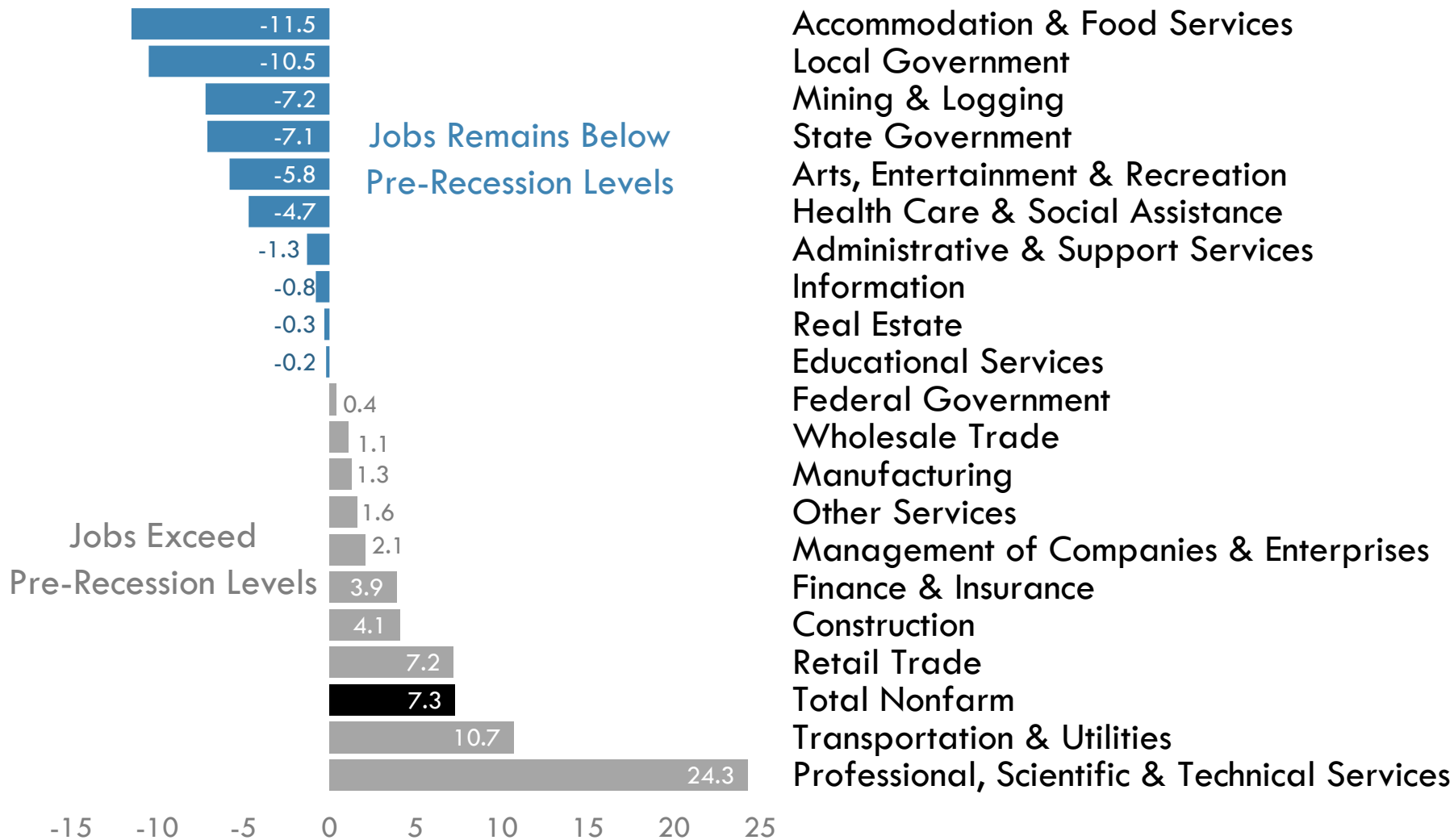


Source: U.S. Bureau of Labor Statistics.

Data are seasonally adjusted and through March 2022 for the U.S. and February 2022 for Colorado.

In Colorado, a growing share of industries exceed pre-pandemic job levels

Change in Colorado Job Levels, February 2022 relative to February 2020 (Thousands)

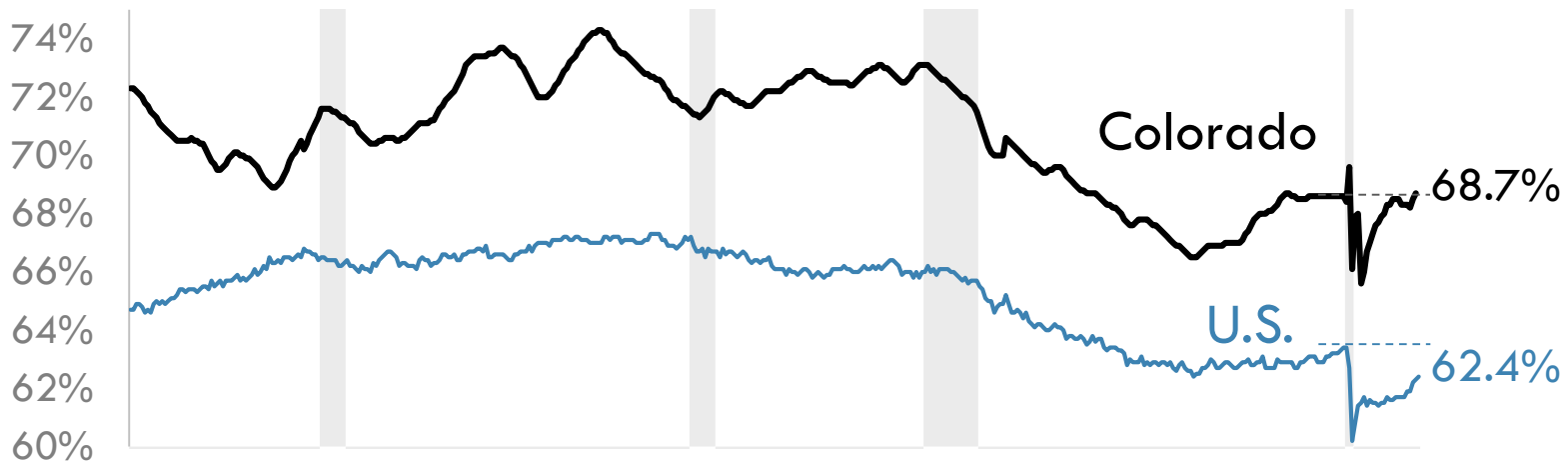


Source: U.S. Bureau of Labor Statistics. Data are seasonally adjusted and through February 2022.

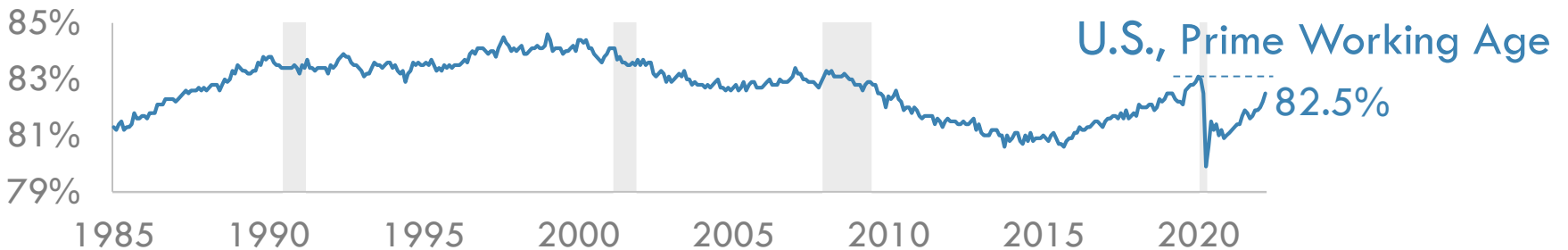
Labor force participation is back to pre-pandemic rates; U.S. participation lags, even when adjusting for age

Labor Force Participation Rates

Employed or Unemployed as a share of the Civilian Population, Age 16+



Employed or Unemployed as a share of the Civilian Population, Ages 25 to 54



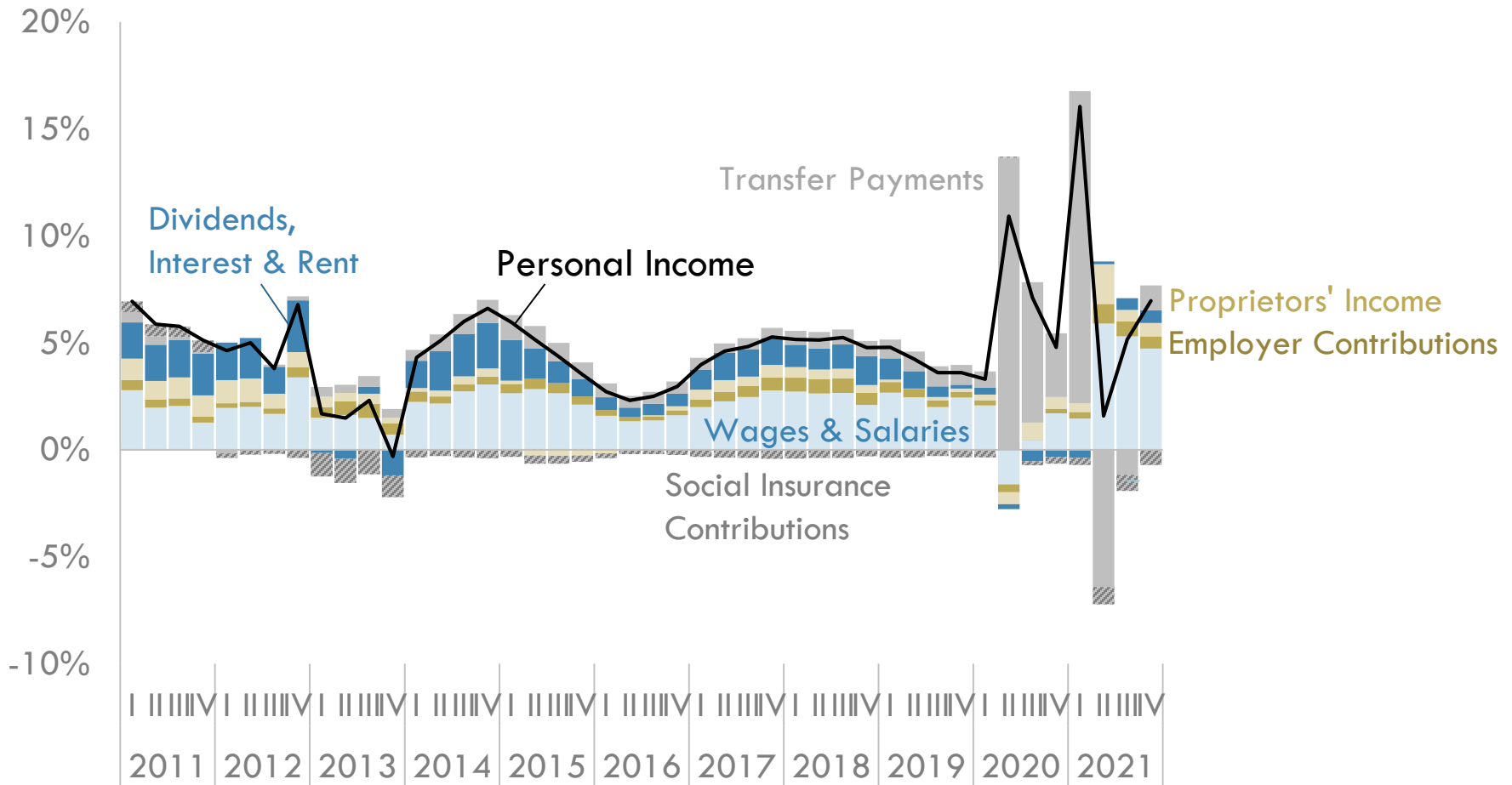
Source: U.S. Bureau of Labor Statistics.

Data are seasonally adjusted and through March 2022 for the U.S. and February 2022 for Colorado.

Rising wages offset declining transfer payments

U.S. Personal Income and Its Contributions

Contributions to Percent Change, Year-over-Year

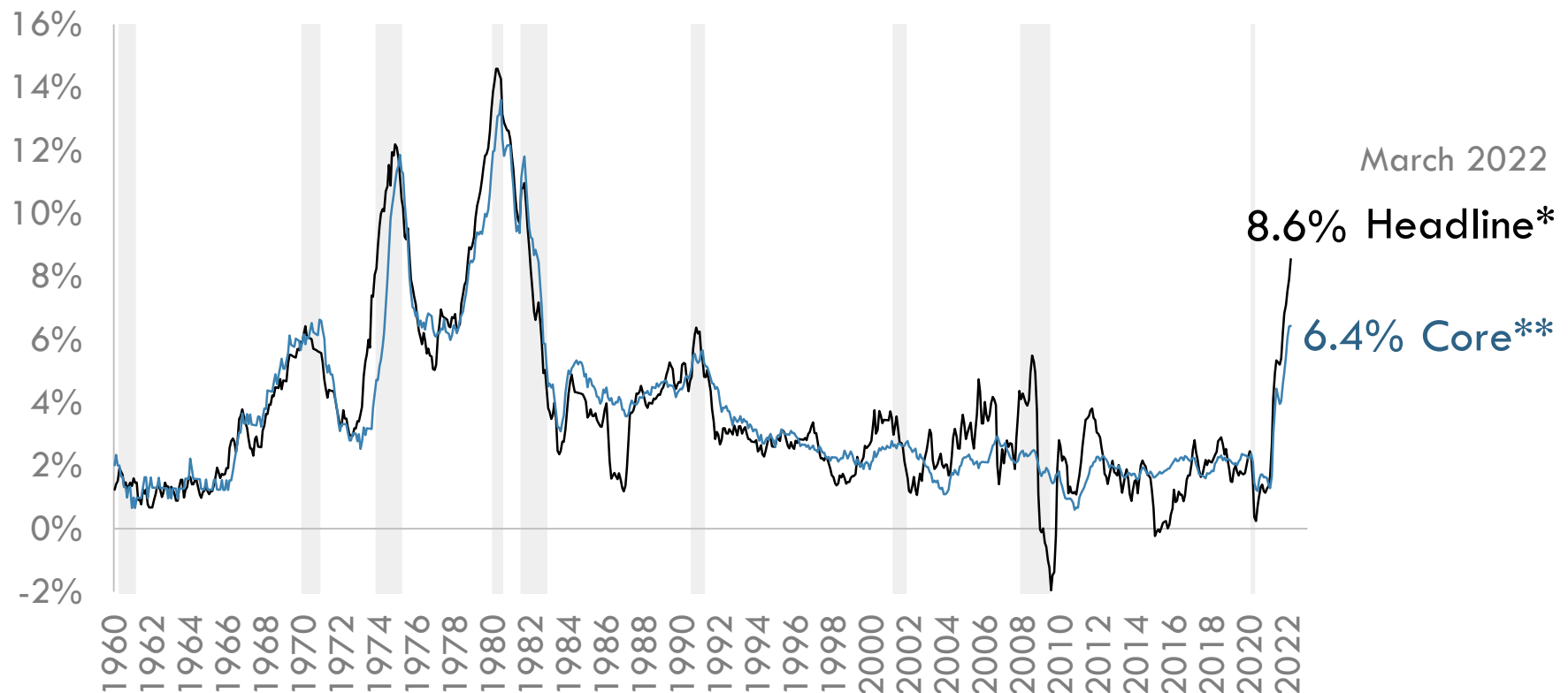


Source: U.S. Bureau of Economic Analysis with Legislative Council Staff calculations. Data shown as seasonally adjusted annual rates and are not adjusted for inflation.

Inflationary pressures continue to mount on pandemic shifts in consumption, supply chain disruptions, economic growth

U.S. City Average CPI-U Inflation

Year-over-Year Change in Prices



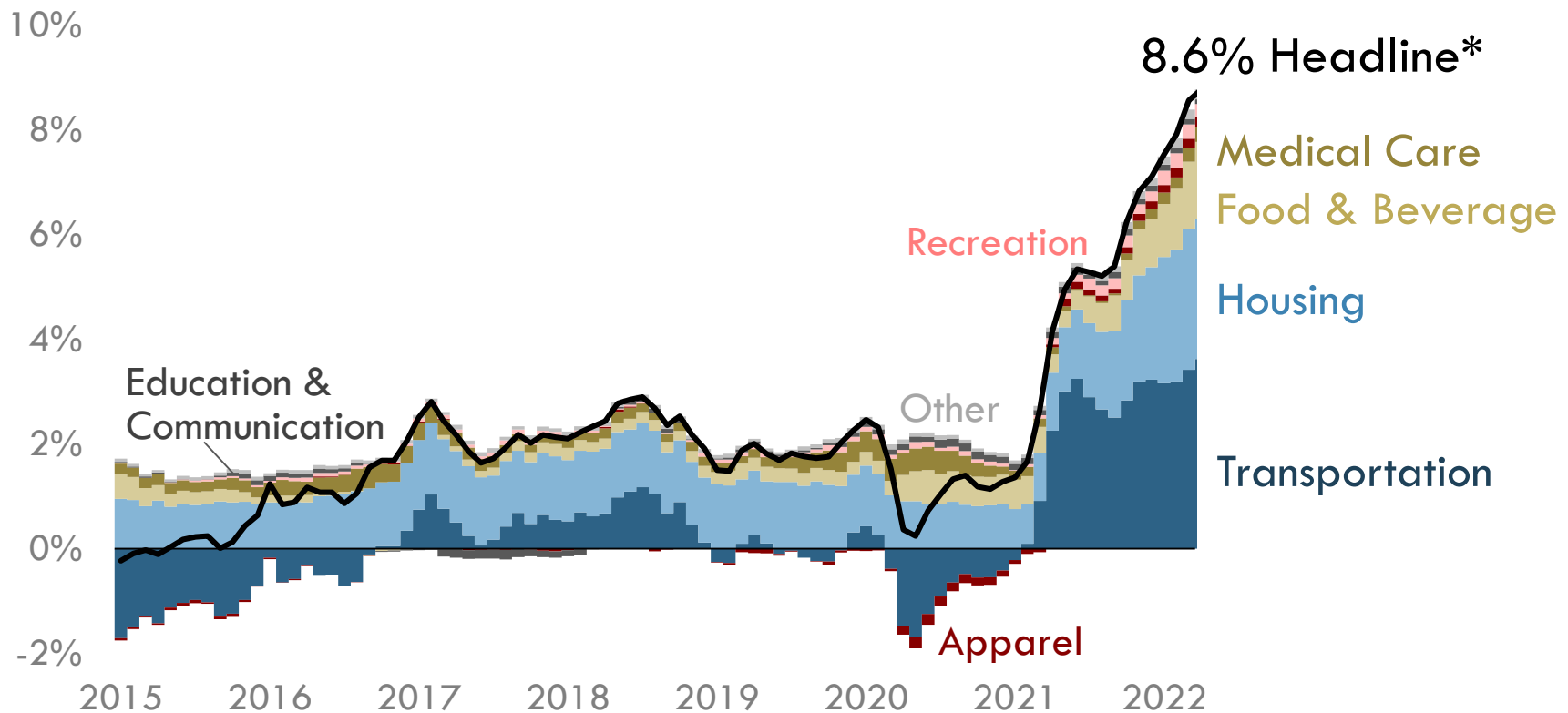
Source: U.S. Bureau of Labor Statistics.

Inflation is calculated as the growth in urban area prices in a given period relative to the same period in the prior year.

*Headline inflation includes all products and services. **Core inflation excludes food and energy prices.

Transportation and housing are driving inflationary pressures

U.S. City Average CPI-U
Contribution to Headline Inflation

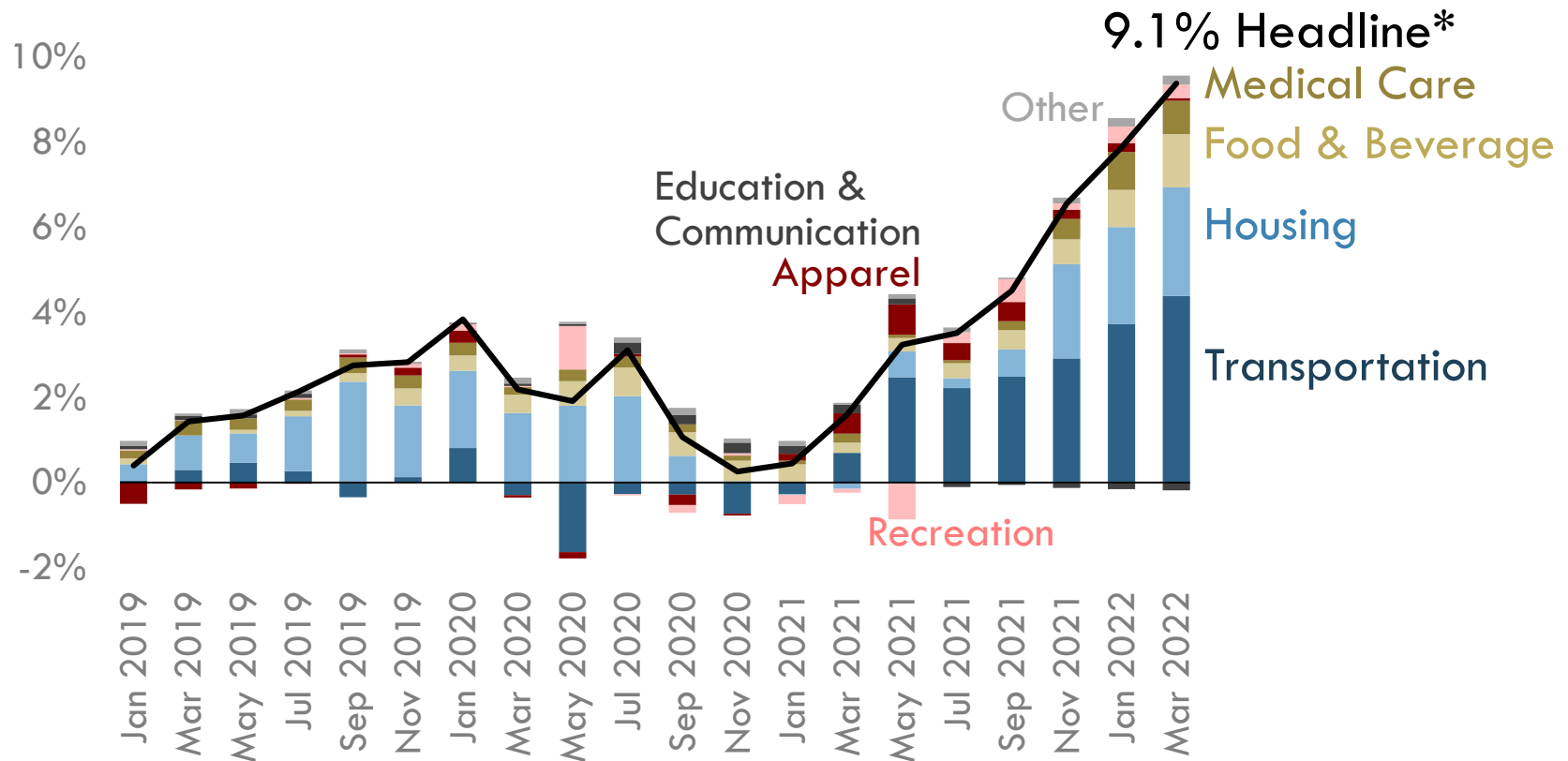


Source: U.S. Bureau of Labor Statistics.

Inflation is calculated as the growth in urban area prices in a given period relative to the same period in the prior year.

Inflation also on the rise in Colorado, projected to average 7.0 percent in 2022 and 3.8 percent in 2023

Denver-Aurora-Lakewood Consumer Price Index (CPI-U)
Contributions to Percent Change in Year-over-Year Prices



Source: U.S. Bureau of Labor Statistics.

Inflation is calculated as the growth in urban area prices in a given period relative to the same period in the prior year.

*Headline inflation includes all products and services.

Pandemic challenges compounded by emerging risks

- Lingering pandemic-related disruptions compounded by accelerating inflation and the war in Ukraine
- **Downside:** Continued supply and demand mismatches, inflation and tighter monetary policy, waning fiscal stimulus, geopolitical uncertainty
- **Upside:** Near-term resolution to war in Ukraine, rapid return to spending on services, productivity growth, higher labor force participation
- Near-term risks are weighted to the downside with an elevated risk of recession during the forecast period

General Fund Budget Outlook

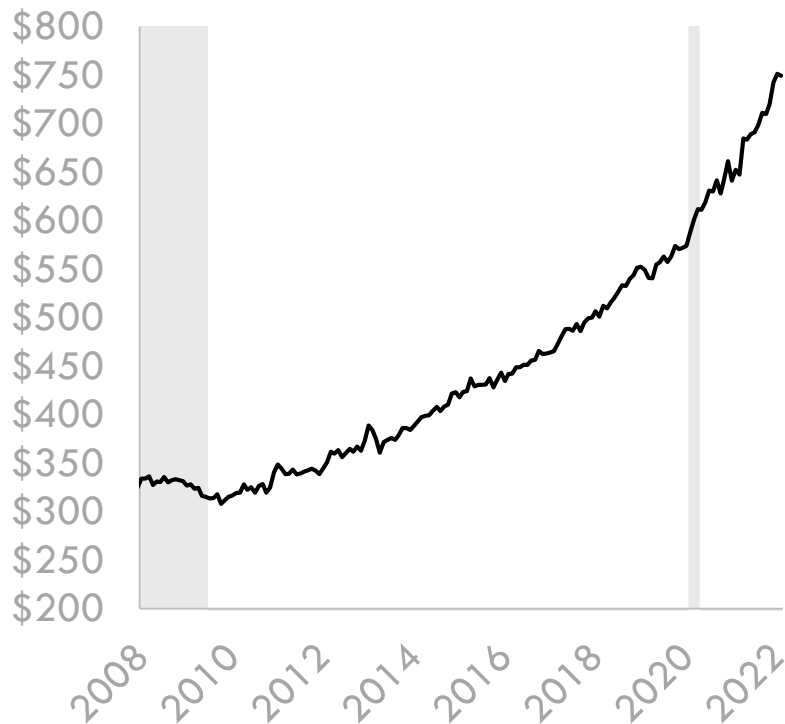


The largest General Fund streams remain strong on wage gains, goods demand, and inflationary pressures

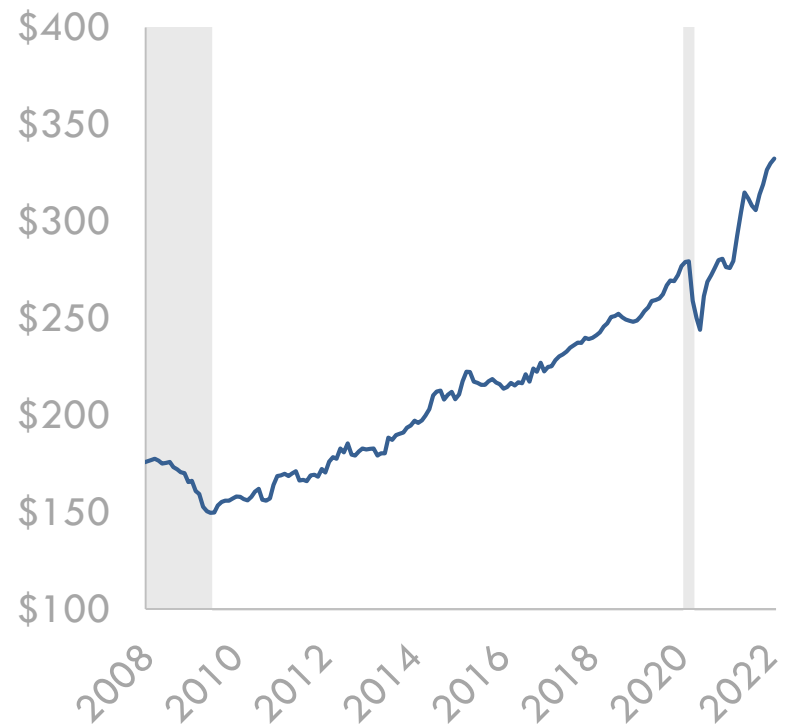
Monthly General Fund Collections from Selected Sources

Dollars in Millions

Individual Income Tax Withholding



Sales Tax Collections



Source: Colorado Office of the State Controller with Legislative Council Staff seasonal adjustments. Data shown as three-month moving averages through February 2022. February 2022 data are preliminary.

Slower General Fund revenue growth expected: Strong wage gains offset by inflation eroding business profits, shifts from goods to services, weaker capital gains, higher interest rates

Gross General Fund Revenue

Billions of Dollars

Percentages show year-over-year changes

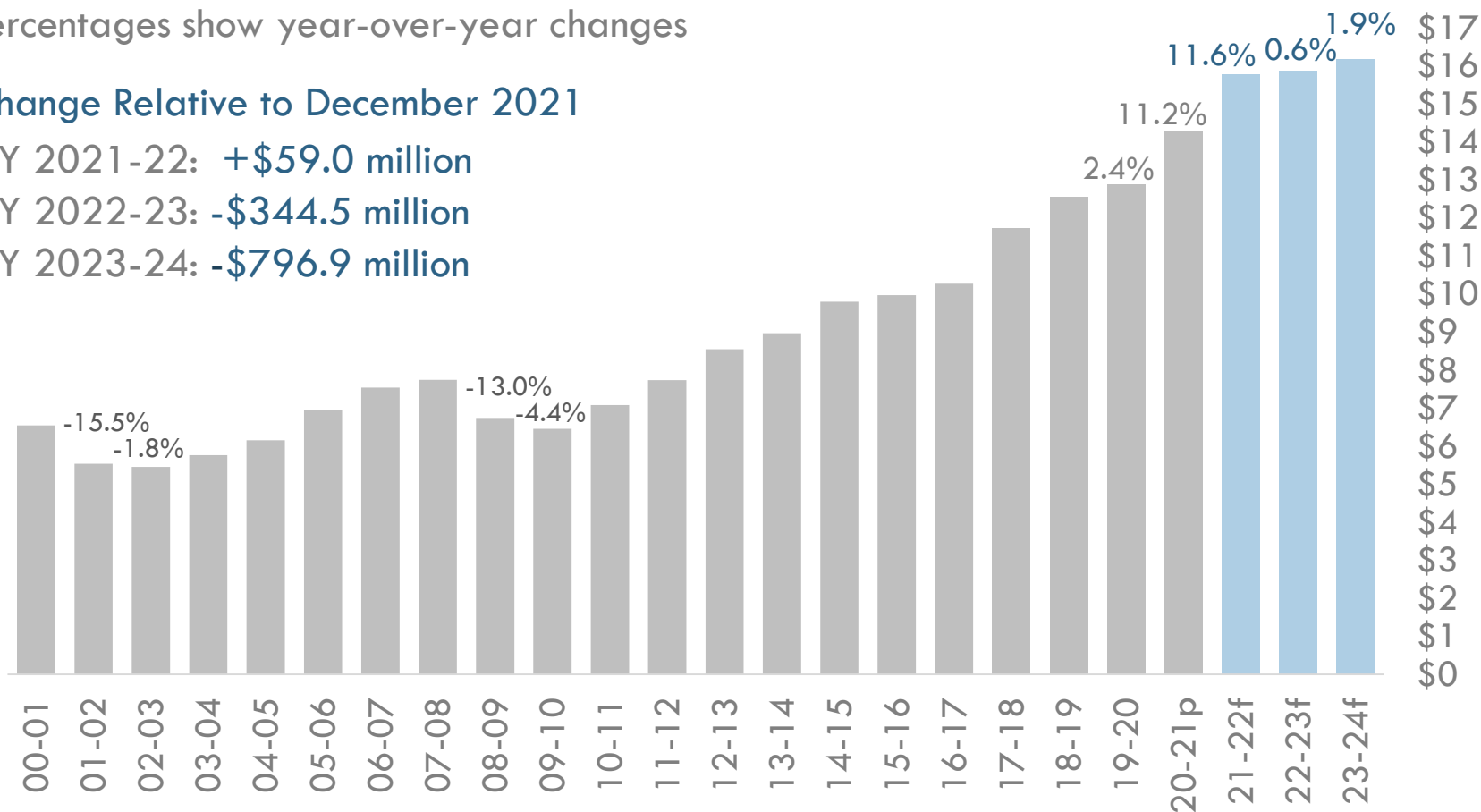
Change Relative to December 2021

FY 2021-22: +\$59.0 million

FY 2022-23: -\$344.5 million

FY 2023-24: -\$796.9 million

March 2022
Expectations



Source: Colorado Office of the State Controller and Legislative Council Staff March 2022 forecast.

TABOR Outlook

Revenue Subject to TABOR

Dollars in Billions

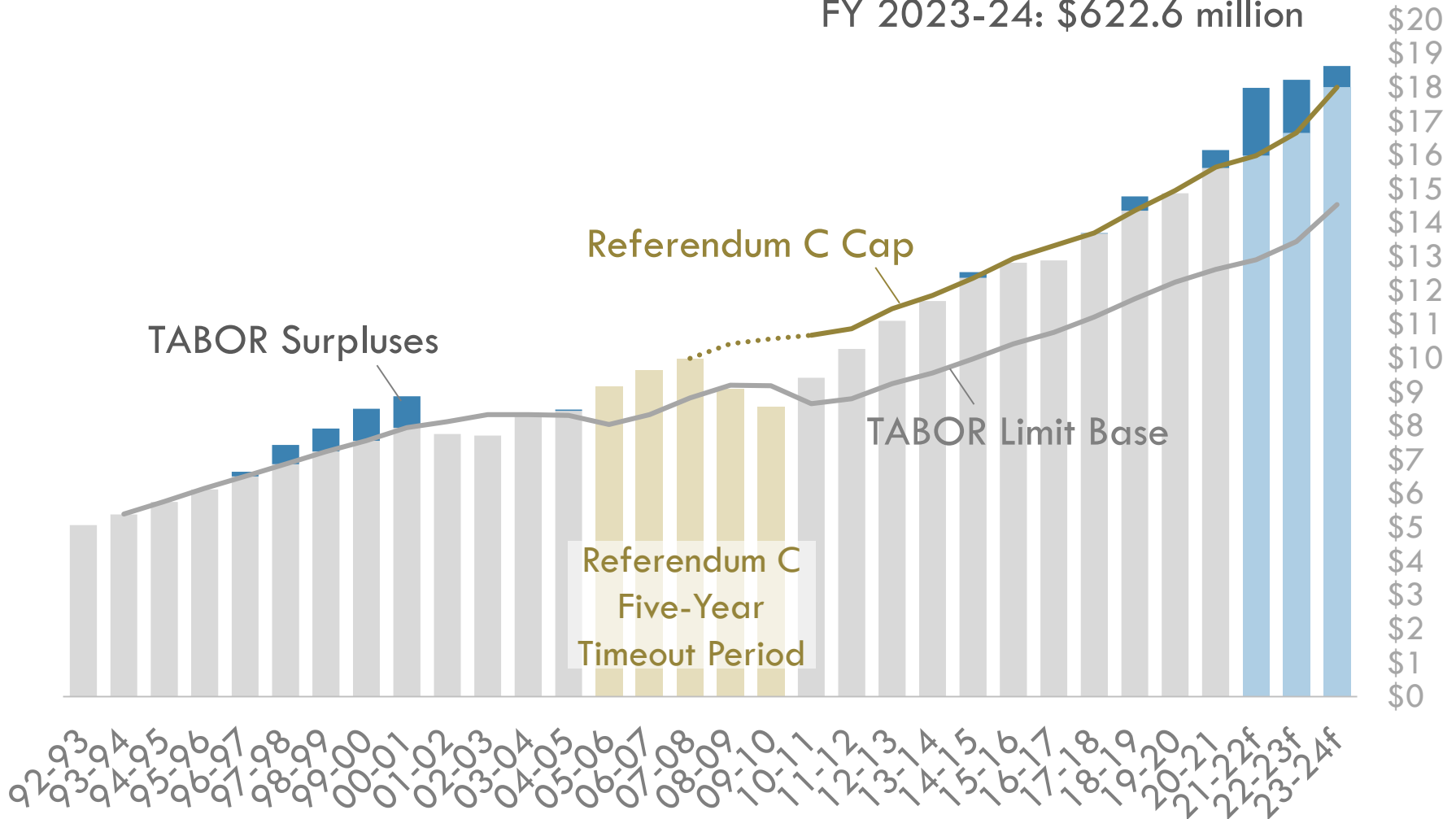
Revenue Above the Ref C Cap

FY 2020-21: \$525.5 million

FY 2021-22: \$2.0 billion

FY 2022-23: \$1.6 billion

FY 2023-24: \$622.6 million



Big Picture Budget Situation

- **Relative abundance of one-time General Funds**
 - Spend it now, save it for a rainy day, or spread it over multiple years
 - One-time investments often also have ongoing costs
- **Near-term Budget growth is as good as it gets**
 - Limited to inflation + population growth under the Ref C cap
 - Higher inflation means more room under the Ref C Cap but also stronger budget pressures
 - A recession would likely eliminate TABOR refunds and constrain revenue for spending
- **We are now better equipped for a rainy day**
 - The required 15% General Fund reserve provides a cushion for a moderate recession

Inflation Risk & the Budget

Lag in higher Referendum C cap growth

Inflation + Pop. Growth = Allowable Referendum C Cap Growth

2021: 3.5% + 0.7% FY 2022-23 +\$672 million

2022f: 7.0% + 1.1% FY 2023-24 +\$1.35 billion

2023f: 3.8% + 1.2% FY 2024-25 +\$901 million

1% higher inflation = ~\$170 million higher Ref C cap

Inflation will impact near-term budget pressures

- State employee wage pressures
- Construction, fuel costs
- Required school finance increase is lagged
(e.g., 2022 inflation impacts FY 2023-24 budget)

Risks to the Forecast

New sources of uncertainty, elevated recession risk

- Geopolitical risk with the war in Ukraine, pandemic's trajectory, supply chain disruptions, labor shortages, high inflation
- Evolving monetary policy
- 2022 legislation, ballot outcomes, federal stimulus or tax policy changes

Risks to the budget outlook

- Revenue will be constrained by the Referendum C cap throughout the forecast period, capping General Fund budget growth
- Regular forecast error can be absorbed by TABOR refunds; a recession would likely constrain revenue available for the budget
- Higher (or lower) cash funds revenue subject to TABOR means more (or less) budget pressure
- Inflation risk to Referendum C cap and budget pressures

Questions?

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