CASB 2019 Convention

Colorado K-12 Funding
School Finance – New Board Member Training

December 5, 2019

Glenn Gustafson
Colorado Springs D-11 / Deputy Superintendent - Chief Finance Officer

Tracie Rainey
Colorado School Finance Project / Executive Director

COLORADO SCHOOL FINANCE PROJECT
Support Children - Support The Future
**Colorado School Finance Project**

**Mission:** To compile, collect and distribute research-based, non-partisan information and data on topics related to school finance for state and local policymakers.

The CSFP changed to a formal entity in 2014. We are a non-profit, Colorado-based company. The CSFP was originally created in 1995, following the passage of the 1994 School Finance Act.

Our website, www.cosfp.org, contains a wealth of current and historical information on school finance with topics ranging from national funding comparisons to Colorado’s legislative history on school finance.

Our sincere thanks to the many school districts and organizations (CASE, CASB, CEA, Colorado BOCES, DBO, AFT, and Rural School Alliance) who financially support our work. The CSFP could not do our work without their support.

Tracie Rainey  
Executive Director, Colorado School Finance Project  
Twitter: @COSFP  
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**Senior Fellow:** Justin Silverstein (Augenblick, Palaich & Associates, Co-CEO)

**CSFP Board of Directors:**

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*Scott Murphy – Chair;* Colorado school finance expert, retired Colorado Superintendent

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Financial Officer:

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- *Bill Sutter* (Boulder Valley Schools)

Organizations representing state-wide groups:

- *Cheri Wrench* (CASB) – school boards  
- *Lisa Escarcéga* (CASE) – school executives  
- *Kathy Rendon* (CEA) – teachers / staff  
- *Lisa Weil* (Great Education Colorado) – parents / supporters of public education
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Our web page: www.cosfp.org
### Colorado School Finance Project

**Support Children - Support The Future**

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<th>FY 2018-19</th>
<th>FY 2017-18</th>
<th>FY 2016 - 17</th>
<th>FY 2015-16</th>
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<tr>
<td><strong>Student Count (membership)</strong></td>
<td>911,536</td>
<td>910,280</td>
<td>905,019</td>
<td>899,112</td>
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<tr>
<td><strong>Budget Stabilization Factor (BSF) / Negative Factor (NF)</strong></td>
<td>-$572.4M Total Impact 09-19: $8.1B</td>
<td>-$828.3M (BSF)</td>
<td>-$828.3M (NF)</td>
<td>-$830.7M (NF)</td>
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<td><strong>Per Pupil BSF (state average)</strong></td>
<td>-$628</td>
<td>-$958</td>
<td>-$964</td>
<td>-$974</td>
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<td><strong>Education Funding Legislative Policy / Legislative Policy that Effects Education Funding / State Board of Education (SB1)</strong></td>
<td>School Finance Interim Cmte extended (SB19-1094): Public School Finance Act (SB19-246), includes $22M for tier b Special Education and $20M for Rural districts (one time), and a $100M buydown of BS Factor; READ Act (SB19-199) changes requirements and accountability; RST (HB19-1095) includes one time facility $ and added, to overall tax revenue stream; Full-Day Kindergarten (HB19-1262); High Cost Special Education Trust Fund Grants (SB19-066); Gallagher Amendment to Residential Assessment Rate (SB19-255) lowers rate to 7.15%.</td>
<td>2017 SF Interim Cmte (HB17-1340): HB18-1379: Buydown BS Factor $150M, $30M Rural assistance, +1K ECARE slots. SBE: 2021 graduation class proof of competency (HB12-1240).</td>
<td>SB17-267: $30M to Rural schools. SB17-296 SFA: rename Neg Factor to Budget Stabilization Factor. HB17-1340: School Finance Interim Cmte 2017 &amp; 2018 Interns: HB17-373: Districts share MLO w/charters 2019-20. HB17-1003 CDHE/CDPHE teacher shortage study, report 12/17.</td>
<td>HB16-135A: New MLO for cash funding school technology, capital construction, facility needs; outside current 25% cap (30% rural districts).</td>
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<td><strong>Governor</strong></td>
<td>Education Leadership Council</td>
<td>Education Leadership Council (ELC) renamed: Colorado Education Leadership Council</td>
<td>Education Leadership Council (ELC) redesigned (Bl 2011-001)</td>
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<td><strong>Federal Policy</strong></td>
<td>ESSA</td>
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<td><strong>Statewide Election</strong></td>
<td>Amendment 7 3 Failed: Raise $1.68/yr - deposit in Quality Public Education Fund. Voter Approval To Retain Revenue for Ed &amp; Transp (HB19-1257) allows Prop CC for &quot;de-bruising&quot; to be on Nov 2019 ballot.</td>
<td>Amendment 71 pass: Requirements for Constitutional Amendments, set number of signatures in senate districts statewide, pass w/ 55% votes cast.</td>
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<td><strong>Colorado Judicial</strong> (U.S. Supreme / District Court in italics)</td>
<td>Denver Court: Ruling for plaintiffs: CASE/CASB/ 5 Districts - HB18-1306 transportation section doesn't comply w/ single subject.</td>
<td>CO SC dismisses Taxpayers for Douglas Cnty Schi Dist. DCSD rescinded voucher program.</td>
<td>TABOR lawsuit ruling: plaintiffs lack standing, appeal is possible.</td>
<td>Douglas Cnty Schi Dist v Taxpayers for Public Education</td>
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**November 2019**

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303-860-9136 | @COSFP | cosfp.org
School districts are funded by a combination of sources as defined in the School Finance Act.

The formula for total program funding is defined by the legislature in the School Finance Act. Local revenue + State revenue = Total Program Funding for a district.

1. How are the local and state revenues determined?
   a. **Local revenue is determined first:** Generated by local property taxes and specific ownership tax.
   b. **Next, Local revenue is subtracted from the amount designated in the School Finance Act.**
   c. The result is the **State revenue portion.** (State revenue comes from sales and income tax.)

2. The formula also calculates the “Budget Stabilization/Negative Factor” and an amount is deducted from the State’s portion of funding for each school district. The impact varies by school district as the calculation is on the statewide average, not calculated for each school district. Otherwise there would be 178 school finance formulas.

Additional revenue streams to districts:
- **Federal Funds:** flow to districts that are tied to certain programs or students.
- **State funds:** “Categorical” dollars for special education, English language learners, gifted and talented, Vocational education, transportation and small attendance centers. (source: Sales and Income Tax collected by state)
- **Local override dollars:** Voter approved increases in local tax dollars for local programs and priorities. These dollars are outside the mills raised for the school finance act.
- **Grants:** Typically for a specific purpose and for a particular length of time.
- **Bond Dollars:** Voter approved increases primarily approved for capital construction. Bond dollars cannot be used for general operations in a district.
The **Gallagher Amendment** was referred to the ballot by the legislature and passed by voters in **1982** to control for residential and commercial fluctuations in property tax support for local governments. It created a formula that could fluctuate mill levies up and down but assured a consistent local contribution and adjust for economic changes in residential and commercial growth patterns.

The **TABOR Amendment, or Article 10 Section 20 of Colorado’s Constitution, was passed by the voters of Colorado in 1992.** Article 10 Section 20 added numerous changes and limits to Colorado’s constitution:

- **Operations of state and local governments:**
  - no taxing authority by elected officials
  - both a revenue and a spending cap for state and local governments.

- **Election process:**
  - mandates all revenue increases be voted
  - defines when and in what year elections can be held
  - requires specific language terminology that must be used when asking voters to raise revenue.

- **Situations not contemplated:**
  - Adjustments in revenue and spending limits to state and local budgets when there is a change in tax collections or a change in the economy
  - Impact of Gallagher to state and local government budgets in conjunction with Article 10 Section 20.

- **Between 1966 and 1990 there were 7 attempts to pass a tax limitation initiative** before the TABOR amendment passed in 1992.

- **Referendum C (referred by the legislature) - passed by voters in 2005 to address the revenue limit in Article 10 Section 20.** A time-out was granted and the ratchet effect in Article 10 Section 20 was removed. This gave temporary relief to the state’s budget.

- **In 2019, the Colorado Supreme Court ruled that the complete repeal of TABOR is possible as a single-subject ballot initiative.** This means that an initiative could be placed on the ballot. If voter approval is obtained the provision could be repealed. To read full opinion, go to the following URL:

- **In 2019, the Legislature created an opportunity for voters to pass Proposition CC.** If successful, **Proposition CC** would allow the state to retain surplus tax dollars and divide those monies between education, higher education and transportation. In **HB19-1257** the legislature voted to allow **Proposition CC** to be on the ballot. Then **HB19-1258** explains how the monies retained would be distributed.

- **Amendment 23 was a citizen’s initiative approved by the voters in 2000.** It was designed to increase funding in Colorado after years of decline from the late 1980s through the 1990s. Amendment 23 was not a tax increase, was a diversion of state income tax to be used for education. Amendment 23:
  - Required the statewide base and total funding for categorical programs increase by at least the rate of inflation. (For the first 10 years funding increased by the rate of inflation plus 1% to return funding to 1988 levels.)
    - Categoricals are outside the school finance formula – consisting of special education, English language learners, Gifted and Talented, small attendance centers, transportation, and vocational education.
  - Created the State Education Fund – diverting 1/3 of 1% of income tax to the State Education Fund. This revenue is exempt from TABOR limitations.
In 2009, the Legislature created the “Budget Stabilization Factor” as a mechanism in the school finance act to reduce Amendment 23’s requirement of annual inflationary increases to per pupil funding. In 2010 the Legislature renamed the Budget Stabilization Factor to the “Negative Factor”. Then in 2017 the Legislature renamed the Negative Factor to the “Budget Stabilization Factor.”

- This Factor takes money away from per pupil funding.
- The 2015 Dwyer ruling of the Supreme Court determined that this is legal and that the voters in 2000 allowed for the legislature to reduce funding.
- Between 2009 and 2019-20 the Negative / Budget Stabilization Factor has resulted in almost $8.1 billion in lost revenue to K-12. The Budget Stabilization Factor has now been in place for 10 fiscal years.
  - Limits to state and local budgets when there is a change in revenue tax collections or a change in the economy
  - Impact of Gallaher to state and local government budgets in conjunction with Article 10 Section 20.
- Between 1966 and 1990 there were 7 attempts to pass a tax limitation initiative before the TABOR amendment passed in 1992.

Referendum C (referred by the legislature) - passed by voters in 2005 to address the revenue limit in Article 10 Section 20. A time-out was granted and the ratchet effect in Article 10 Section 20 was removed. This gave temporary relief to the state’s budget.

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What are the Elements in School Finance?

- **Base Funding** – what does the base represent?

- **What are adjustments or weights for students?**

- **What are adjustments or weights for school districts?**

- **What isn’t included in the formula currently?**

- **What might be included in a formula?**
Revenue Inside the School Finance Act

Local Share – District Total Program = State Share

**LOCAL SHARE**
Local District Taxes:
- Property Taxes
- Ownership Tax

**STATE SHARE**
State Taxes:
- General Fund
- Education Fund

Local Share
- Property tax
- Starting point for determining state share of District Total Program
- Remains in the district

State Share
- State “backfills” to reach District Total Program.

State & Local Share Varies (by design)

**District A**

**LOCAL SHARE**
Local District Taxes:
- Property Taxes
- Ownership Tax

**STATE SHARE**
State Taxes:
- General Fund
- Education Fund

**District B**

**LOCAL SHARE**
Local District Taxes:
- Property Taxes
- Ownership Tax

**STATE SHARE**
State Taxes:
- General Fund
- Education Fund

State & Local Share Varies (by design)

**District A**

**LOCAL SHARE**
Local District Taxes:
- Property Taxes
- Ownership Tax

**STATE SHARE**
State Taxes:
- General Fund
- Education Fund

**District B**

**LOCAL SHARE**
Local District Taxes:
- Property Taxes
- Ownership Tax

**STATE SHARE**
State Taxes:
- General Fund
- Education Fund
Colorado School Finance Project

Most Recent Mill Levy Override (MLO) Passed by Voters in Colorado School Districts - November 2019

Data: CDE & Secretary of State
Chart: Colorado School Finance Project
School Districts Have No Control Over What One Mill Raises

- The variation in how much 1 mill raises is from $5,700 to $20,000,000.

- The average dollars raised by 1 mill is $740,209. The median dollar amount is $112,234.

- One mill per student raises a bit more than $20 to more than $5,400.

- Average dollars per student raised by 1 mill is about $300.29. The median $147.99.
Colorado’s Budget Stabilization Factor (Negative Factor)

2010: Colorado Legislature added the “State Budget Stabilization Factor” to the School Finance Act as a mechanism to balance the budget. It reduces funding to all school districts in Colorado.

2011: Colorado Legislature renamed the Factor to the “Negative Factor”

2017: Colorado Legislature renamed the Negative Factor to the “Budget Stabilization Factor”

Budget Stabilization Factor:

2019-20: $572M
2018-19: $672M
2017-18: $828M
2016-17: $830M
2015-16: $855M
2014-15: $880M
2013-14: $1.004B
2012-13: $1.001B
2011-12: $774M
2010-11: $381M

CSFP’s district by district report of “Eleven Years of Colorado’s K-12 School Funding Cuts 2009-2020” is available on our Budget Stabilization/Negative Factor page:

cosfp.org> School Finance > Budget Stabilization / Negative Factor
Vision: Every Colorado student has access to an adequate & equitable public school education.

Federal and State Categorical Funding:

- 38% of special education costs
- 24% of English learner costs
- 31% of gifted and talented costs (no federal funding)
- 24% of Career and Technical Education costs
- 24% of public-school transportation costs (no federal funding)
School Board’s Fiduciary Responsibilities

As a school board you are responsible for the following:

- Creating a budget
- Maintaining a fund balance
- Hiring an auditor
- Having an audit completed
- Quarterly financial reporting
- Financial transparency
- Decision around taxing authority, like mill levies for total program, bonds, overrides

Things to think about:

Do you have a financial advisory committee?
- Process:
  1. Preliminary Budget
  2. Proposed Budget
  3. Adopted Budget
  4. Mid-Year Adjustments made to Budget
- Budgeting is a public process and can take time to gather input from all stakeholders

Do you have an audit committee?
- Audits are required by law
- Audits are looking to prevent fraud
- Must be an independent contractor
- The auditor works for the Board
- District is responsible for preparing financials and management to speak with the auditors
- Auditors render an opinion based on district information

Indicators of Financial and Fiscal Health
- Asset sufficiency ratio
- Debt burden ratio
- Operating reserve ratio
- Change in fund balance ratio
- Understanding fund balance
- Understanding Balance Sheet
School Board’s Fiduciary Responsibilities (cont.)

Bonds or Certificates of Participation (COPs)
- Bond Capacity
  o 25% assessed valuation
  o Ask voters for in November elections
  o Need for BEST match
- COPs:
  o Lease instead of own
  o Do not need voter approval
  o Repayment is made from the general fund
  o Can be controversial

Cost drivers in school districts:
- Student enrollment- growing, slowing, stable, student needs
- Teacher pay
- Transportation
- Infrastructure maintenance

Revenue sources for school districts:
- Local property tax and specific ownership tax – 1st dollars in
- State backfills difference to reach legislative School Finance Act (income tax and sales tax)
- Categoricals – state dollars that fund:
  o Special education, students learning English, Gifted & Talented, transportation, Career & Technical Education
  o Federal dollars – 6%
- Local mill levy override dollars – vary by district
- One-time dollars or grants

Mill Levies
- Are dollars raised locally by property taxes
- Local property taxes go toward dollars needed for school finance
- Mill levies may be used for additional dollars called “override” – outside the formula- voter approved
- Mill levies may be used for bonds to build or repair schools- voter approved
The timing of the legislatures work on school finance and district decisions for their budget are not synced.

**Legislature**

January to early May: The legislature convenes in January and begins work on School Finance in March or April for the upcoming school year. (i.e. January – May 2020 convening, determining funding for 2020-21 school year.)

To determine funding for the upcoming 2020-21 school year the legislature uses estimates. Once actual numbers are available and state forecasts are updated, the legislature may adjust funding to districts in January.

I. An **estimated enrollment count** (from May 2020) is used until CDE audits the October Membership Count in December 2020.

II. An **estimated local share** (local property taxes and specific ownership tax) is used until the final mill levy certification, which is determined in December 2020.

III. In January 2021, via the Supplemental Process, the legislature adjusts allocations to school district funding. The desired outcome is to increase revenue to reflect enrollment changes and local property tax collections. When the state does not make up what might be needed in additional revenue it is then taken back from a school district in the form of a mid-year rescission.

**School Districts**

Finance decisions for the upcoming school year are decided **prior** to finalizing the school finance act. School districts must register students, hire staff, and determine class offerings by March of 2020. Districts must adopt the upcoming fiscal years’ budget by the end of June 2020.
Sample District Budget Development Calendar for 2019-20 School Year

*Italics = State Level*

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<th>July 2019</th>
<th>August 2019</th>
<th>September 2019</th>
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| New Fiscal Year Begins | **District:** Plan budget calendar for 2018-19.  
**BOE:** Long-range budget forecast discussions with BOE.  
Decision due for Mill or Bond election.  
**District:** Receive preliminary assessed valuation | **State:** 2018-19 Revenue Forecast  
**BOE** receives quarterly financials |

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<th>October 2019</th>
<th>November 2019</th>
<th>December 2019</th>
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| October Student Count (10-day window) | **State:** Governor’s Budget  
**District:** Mill or Bond election,  
Odd years: School board election | **State:** 2019-20 Revenue Forecast  
CDE releases student Membership Count.  
**District:** Receive final assessed valuation from county assessor.  
**BOE:** Certify mill levies property tax collection figures to county commissioner.  
**BOE:** Revised 2019-20 Budget Approved & Quarterly financials |

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<thead>
<tr>
<th>January 2020</th>
<th>February 2020</th>
<th>March 2020</th>
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| **Legislature:** Session Begins.  
Supplemental Process. | **Consumer Price Index (CPI) Forecast**  
**Legislature:** Preliminary indication of school finance  
**BOE:** receives budget update | **State:** 2020-21 Revenue Forecast  
**BOE** receives quarterly financials  
**BOE:** Approve funded Capital projects |

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<tr>
<th>April 2020</th>
<th>May 2020</th>
<th>June 2020</th>
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| **District/BOE:** Begin staffing decisions for 2020-21 | **Legislature:** Finalize School Finance Act. Session ends.  
**District/BOE:** Staffing decisions, preliminary budget must be presented | **State:** 2020-21 Revenue Forecast  
**BOE** receives quarterly financials  
**BOE:** Adoption of 2020-21 budget |