

- ▶ the cap on the amount of additional local property tax revenue that a school district may raise and spend (the override limit) is raised from 20% of total program funding to 25%;
- ▶ charter schools that receive at-risk funding must spend at least 75% on direct instruction or staff development;
- ▶ charter school capital construction is increased and linked to future increases to inflation and charter school enrollment;
- ▶ a pilot residential school for at-risk students is established; and
- ▶ every student enrolling in 9th grade must register with the online college planning and preparation resource, "College in Colorado."

Other Provisions. The bill increases the statewide base per pupil funding per constitutional requirements of inflation plus 1% (from \$5250.41 to \$5,507.68). In addition, the bill maintains the supplemental kindergarten funding of 8% of PPR through FY 2009-10.

The bill also modifies the TABOR reserve requirements for school districts. Specifically, the amended bill authorizes school districts to designate real property as all or a portion of their required TABOR reserve if they have already provided for a 3 percent General Fund reserve in a given budget year. It also authorizes governmental entities to invest in qualifying certificates of participation (COPs) issued by school districts under certain conditions and permits the State Treasurer to grant permission to include a moral obligation for repayment in a lease-purchase or other agreement if it is in the best interests of the state or will reduce borrowing rates.

State Expenditures

Background. School finance in Colorado is governed both by the constitution (Amendment 23 - Article IX, Section 17) and statutes (the Public School Finance Act of 1994 - Title 22, Article 54, C.R.S.). Under current law, the program is estimated to cost over \$5.7 billion in FY 2009-10, of which over \$3.4 billion comes from state sources, mainly the state General Fund. Current law requirements are funded through the Long Bill; law changes require a separate appropriation.

SB09-256. The bill increases state General Fund expenditures for K-12 education by an estimated **\$9.1 million in FY 2009-10** compared to the requirements of current law. The components of this expenditure impact are shown in Table 1. The fiscal note shows costs as General Fund expenditures, but the General Assembly could choose to pay for some expenses from the State Education Fund. In addition, the bill creates a new residential boarding school for at-risk students that is projected to cost \$7.9 million in FY 2010-11 and \$15.8 million in FY 2011-12. Funding for this boarding school would come from gifts, grants, and donations; money appropriated by the General Assembly; or federal funds.

Provision	FY 2009-10	FY 2010-11
Centers of Excellence	\$4,500,000	\$4,500,000
Reduced Size Factor and At-Risk Factor	(4,500,000)	(4,500,000)
At-risk Funding Changes with Hold-harmless Provision	4,459,800	4,459,800
Charter School Capital Construction	4,616,000	4,712,000
TOTAL	\$9,075,800	\$9,171,800

Centers of Excellence (\$4.5 million). The bill establishes a new "centers of excellence" incentive payment program. Through the program, additional funding is available for middle, junior, or high schools that enroll high percentages of at-risk students and meet specific achievement goals. The bill specifies that 100% of the incentive payment be allocated by districts to the qualifying school.

In FY 2009-10, it is assumed that \$4.5 million in centers of excellence incentive payments will be paid. For a school to qualify, more than 40% of its enrollment must be at-risk students *and* growth in student test scores in grades eight through eleven must exceed some defined statewide growth measure. The incentive payment is \$250, \$500, and \$1,000 per at-risk student in each qualifying school and is determined as follows:

- ▶ between 40% and 75% at-risk—\$250;
- ▶ between 75% and 90% at-risk—\$500; and
- ▶ greater than 90% at-risk—\$1,000.

Reduced Size and At-Risk Factors (savings of \$4,500,000). The bill reduces the existing district size and at-risk factors specified in statute. All size factors are reduced proportionally by approximately 0.05%. The at-risk factor is reduced from 12.0% to 11.9%. The change in both factors will save an estimated \$4.5 million in total program payments by the state in FY 2009-10 and FY 2010-11.

At-risk Funding Changes with Hold-harmless Provision (\$4,459,800). The bill changes the process for determining charter school at-risk funding. For schools that would have received less at-risk funding under the bill's method, a hold-harmless provision is included. Excluding online students, the bill specifies that from FY 2009-10 to FY 2013-14 charter schools will receive 100%, 100%, 75%, 50%, and 25%, respectively in each year, of the difference between:

- ▶ the school district's average at-risk funding for all pupils multiplied by the total number of charter school pupils; and
- ▶ the school district's at-risk funding per at-risk student multiplied by the number of at-risk students enrolled in the charter school.

In FY 2009-10 and FY 2010-11, this is expected to increase school financing requirements by \$4,459,800 million each year.

Charter School Capital Construction (\$4,616,000). The bill provides additional funding for charter school capital construction projects. Starting in FY 2009-10, funding will be determined by multiplying \$175 times enrollment levels in each charter school and institute charter school. Charter school enrollment in FY 2009-10 is estimated at 54,948 pupils, resulting in capital construction funding of \$9.6 million. Current law already provides \$5 million in charter school capital construction, with the net increase of \$4.6 million reflected in the fiscal note.

School District Certificates of Participation (conditional). The bill allows school districts to enter into an agreement with the state whereby the State Treasurer would request an appropriation from the General Assembly to restore the balance in the Certificates of Participation Reserve Fund to a level specified when the COP's were issued. This allows but does not require the state to invest in COPs issued by school districts. If the state does appropriate money to restore the fund balance, and the district defaults on its COP payments, the bill specifies that the state has the right of first refusal to purchase the property financed by the COP issuance for an amount equal to the remaining principal.

Institute Charter School Funding. Currently, institute charter school funding is allocated to the school from the state share of a district's total program funding. When the district pays the majority of program funding, there may not be enough state share to fully fund the institute charter school. In these cases, the institute charter school receives the total amount of the state share payable to the district. This bill requires the CDE to apply for supplemental funding to make the institute charter school whole. However, providing supplemental funding is at the discretion of the General Assembly.

Pilot Residential School. The bill creates a new pilot residential boarding school for at-risk students. The State Board of Education will contract with an operator to provide a year-round educational program for students in grades nine through twelve, focusing on science, technology, engineering, and mathematics. Funding for the program will be based on gifts, grants, and donations; state funds; and federal funds. Based on data relating to the operation of the Colorado School for the Deaf and Blind, it was estimated that the annual operating expenses in the first year would be \$7.9 million. This assumes that 100 students enroll, beginning FY 2010-11. These costs will grow in subsequent years as 100 new students are enrolled each year for four years.

School District Impact

Table 2 shows the estimate of school finance act funding under SB09-256.

Table 2. School Finance Act Funding					
	Pupil Count	Per Pupil Funding	Total Program Funding	State Aid	Local Share
FY 2008-09 Act.	778,136	\$6,882	\$5,354,966,916	\$3,399,098,235	\$1,956,039,665
FY 2009-10 Est.	788,648	\$7,231	\$5,702,755,623	\$3,700,559,548	\$2,002,430,107
Percent change	1.35%	5.07%	6.49%	8.87%	2.37%
Increase	10,512	\$349	\$347,788,707	\$301,461,313	\$46,390,442

Centers of Excellence. Qualified schools that meet academic performance requirements are eligible to receive incentive payments of \$250, \$500, and \$1,000 per at-risk pupil. The amended bill changes the performance criteria from static CSAP scores to longitudinal assessments. The fiscal note assumes that the performance criteria will be adjusted to award \$4.5 million in FY 2009-10.

Reduced Size and At-Risk Factors. A reduction of the statutory size and at-risk factors reduces total program payments from the state by \$4.5 million annually. The impact of this provision on individual districts will depend on the district's enrollment and at-risk student population.

At-risk Funding Changes with Hold-harmless Provision. Changes to the calculation of at-risk funding will ultimately result in some charter schools receiving less funding. However, due to the hold-harmless provision, the state will supplement total at-risk funding such that those charter schools that would have otherwise received less funding will instead get 100% of anticipated funding in FY 2009-10, 100 % in FY 2010-11, 75% in FY 2011-12, 50% in FY 2012-13, and 25% in FY 2013-14. School district funding will increase by \$4,459,800 in both FY 2009-10 and FY 2010-11 for this provision.

The bill also makes two other changes regarding at-risk funding. First, 75% of charter school at-risk funding must be spent on direct instruction or staff development. Second, school districts must ensure that at-risk funding for each school (not including district charter schools) is equal to at least 75% of the funding determined by multiplying the number of at-risk students by the at-risk funding provided for each student.

Institute Charter Schools. Institute charter schools that would receive reduced funding due to the small state share of a district's total program funding may be eligible for funding through the supplemental budget process.

District Set Aside Amounts. The bill eliminates the existing requirement that each district and charter school set aside a percentage of its budget for capital needs, risk management activities, and instructional supplies and materials. Although school districts will still have expenditures for these budget items, elimination of this requirement increases budget flexibility for district spending in FY 2009-10 and beyond. It is anticipated that districts and charters would set aside a total of \$395.1 million in FY 2009-10 under the existing requirements.

District Property Tax Overrides. The bill modifies the requirements for requesting voter approval of additional property taxes, known as overrides. Current law caps overrides at 20% of the district's school finance act funding or \$200,000 plus a cost of living adjustment from 2001, whichever is more. The bill increases the existing cap on the amount of additional property tax revenue that a school district may raise and spend in excess of its total program through a special election. This bill raises the cap to the larger of 25% of the district's total program or \$200,000 plus the 2001 cost of living adjustment. The additional revenue allowed by the bill is required to be used by the district to improve student achievement and close the achievement gap.

Any district that intends to seek voter approval to increase the cap is required to notify the State Board of Education of its intent, and must submit a proposal to the CDE that includes specified components to improve academic achievement in the district and address achievement gaps among student groups.

It is currently unknown how many districts would seek voter approval to increase the cap. Currently, only 103 of 174 districts have voted to provide additional property tax revenue, and most of these districts have approved amounts below the allowable 20% of total program. This bill raises the total revenue authority for districts by an estimated \$285.0 million. Any impact resulting from this change is conditional on the district seeking and obtaining voter approval to collect and expend additional property tax revenue.

State School Land Used for Charter Schools. At statehood, the federal government granted Colorado lands designated to be a resource to support schools as state school lands. The State Board of Land Commissioners is responsible for the management and investment in these lands. This bill allows charter schools to lease, purchase, or otherwise use these lands for school building sites.

Other Provisions. The bill contains two other provisions that may impact policies at school districts and charter schools. First, school districts' boards of education must ensure that all 9th grade students are registered with the online college planning and preparation resource. Second, the bill allows school districts to meet their TABOR reserve requirements with real property owned by the district. This effectively frees up money that districts have currently allocated to meet the reserve requirement. At the end of FY 2007-08, the total money set aside for the TABOR reserve was just over \$154 million.

State Appropriations

For FY 2009-10, the Department of Education requires the following General Fund appropriations:

- ▶ \$4,500,000 for Centers of Excellence;
- ▶ (\$4,500,000) for Public School Finance – Reduced Size and At-Risk Factors;
- ▶ \$4,459,800 for Hold-harmless At-risk Funding; and
- ▶ \$4,616,000 for charter school capital construction.

Departments Contacted

Education
Higher Education

Legislative Council Staff

Human Services