



Colorado Legislative Council Staff
STATE and LOCAL

REVISED CONDITIONAL FISCAL IMPACT

(replaces fiscal impact dated February 28, 2006)

Drafting Number: LLS 06-0604

Date: May 3, 2006

Prime Sponsor(s): Rep. Merrifield
 Sen. Windels

Bill Status: Senate Appropriations

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TITLE: CONCERNING A REQUIREMENT THAT EACH SCHOOL DISTRICT SPEND AT LEAST A SPECIFIED PERCENTAGE OF ITS TOTAL OPERATIONAL EXPENDITURES ON SERVICES THAT DIRECTLY AFFECT STUDENT ACHIEVEMENT, AND MAKING AN APPROPRIATION THEREFOR.

Fiscal Impact Summary	FY 2006/07	FY 2007/08
State Revenues		
State Expenditures		
General Fund - School Finance	\$25,245	\$61,799
FTE Position Change	Contract Services	Contract Services
Effective Date: Upon approval by the voters at the November 2006 General Election.		
Appropriation Summary for FY 2006/07: None required at this time.		
School District Impact: See School District Impact section of fiscal note.		

Because HB06-1283 is referred to the people under referendum at the 2006 general election, all expenditures identified in the fiscal note are conditional predicated on voter approval. Should the measure be approved, it is assumed that costs identified in this fiscal note will be addressed through the annual budget/supplemental process.

Summary of Legislation

This bill, as amended by the Senate Education Committee, makes two changes to school district budgeting. First, it requires all school districts to send their budgets to the Department of Education in a standard format. Second, the bill requires that at least 65 percent of operational expenditures go to services directly affecting student achievement.

The standard budget format will be developed by the State Board of Education by July 1, 2007. The format adopted by the state board should remain consistent and should summarize revenues by source and expenditures by program, function, and object. Beginning in 2007, school districts will be required to submit their budgets to the Department of Education by December 31st.

Determination of whether a school district is spending 65 percent of its operational expenditures on services that directly affect student achievement will be made using end-of-year financial audits of school budgets (not the budget provided by the school district discussed in the

previous paragraph). The bill provides a definition of operational expenditures that excludes several types of expenses. The bill also establishes that expenses considered to affect student achievement directly include:

- personnel at the schools responsible for teaching, school administration, student support services, and other support staff;
- supplies and equipment used for instructional purposes;
- instructional services provided to the school district from outside programs; and
- extracurricular activities including, but not limited to, athletics.

Expenses that are not considered to have a direct effect on student achievement include:

- school district office services such as accounting, budgeting, and other district-wide operational tasks;
- salaries and benefits of central school district personnel related to general school district administration; and
- operations and maintenance of facilities.

The 65 percent requirement must be met by all school districts unless they: (1) obtain a waiver from the state board, or (2) hold a public election on the matter in which the majority of the school district's voters allow an exemption. The state board determines school district compliance with the operational expenditure requirements. Before December 31st, the state board shall prepare a report for the General Assembly that lists the school districts (not subject to an exemption or waiver) that failed to meet the requirements of the bill. School districts that fail to comply are expected to work towards the 65 percent by increasing their operational expenditures at least 2 percent each year until they satisfy the requirements of the bill. The General Assembly is authorized to impose sanctions on participating school districts that do not comply with the bill.

The enactment of HB06-1283 is contingent of on voter approval at the November 2006 general election.

State Expenditures

This bill will only be effective upon voter approval in the November 2006 general election. As such, it is assessed as having a conditional fiscal impact. If approved, total state expenditures required are \$25,245 and 0.3 FTE in FY 2006-07 and \$61,799 and 1.0 FTE in FY 2007-08. Costs are incurred by the Department of Education to support the collection of school district budgets, and to determine of school district expenditure distributions.

Costs of 65 Percent Split. Determining the apportionment of operational account spending is assessed as costing the department \$25,245 and 0.3 FTE in FY 2006-07 and \$61,799 and 1.0 FTE in FY 2007-08. These costs represent the hiring of a senior consultant for 3 months in the first year and full time thereafter.

The department currently has access to the budgetary data required to determine the fund split for each school district. The bill would require the addition of a senior consultant to work with the state board and school districts to determine how to count expenditures appropriately for the school districts. The new staff would also have to work with the districts in cases of non-compliance and waiver decisions. Enhancing the current systems to draw information from the financial audit data to determine the split of operational expenses would require contract programming. Based on an audit conducted on a similar project, roughly \$4,900 of development time is required (70 hours at a contract rate of \$70.00 per hour). Cost components of HB06-1283 are shown in Table 1.

School districts that do not currently spend 65 percent of their operational funding on student achievement would need to find ways to meet the requirements of the bill. This might involve changes at the district level, application for waivers from the state, or an increase in state funding to supplement the district's spending on student achievement.

Table 1 - Total Costs Under HB06-1283		
Cost Components	FY 2006-07	FY 2007-08
Personal Services	\$17,190	\$57,299
FTE - Senior Consultant (Contract)	0.3	1.0
Operational and Capital Expenses	3,155	4,500
Computer Programming	4,900	0
General Fund Total	\$25,245	\$61,799

Budget Collection. The collection of school district budgets is assessed as having no cost. To meet the bill's requirement that budgets be collected annually requires the state school board to determine the standard budget format. It is anticipated that this task can be accomplished within existing resources. The Department of Education must also collect and make the district budgets available to the public. The method with which the data must be collected and available to the public affects department costs. This fiscal note assumes that the budgets will be submitted and stored in a paper format - accessible to the public upon request. If this is the case, costs are minimal and can be absorbed within the department's existing resources.

Should an electronic format be desired, costs to the department will increase. In general, storing budget information in an electronic format would require a system to be developed that allows school districts to input their information, store information, and allow public access to data (most likely an online portal). The department would require additional staff and computer programming to support such a program. There would also be additional requirements at the local level in order to interface with the state system.

School District Impact

School districts have to file budget reports with the department on an annual basis. Preparing for these filings would require the school districts to develop a method to take their existing budget practices and fit them into the standard budget format required by the state board. It is expected that this conversion would take 2 days of work per school district in year one. Future years should take less as the process becomes more routine and simplifications are found. Costs are estimated at \$592 per district for each of the 178 districts in the first year.

School districts that do not currently spend 65 percent of their operational funding on student achievement would need to find ways to meet the requirements of the bill. A preliminary investigation of FY 2003-04 data shows that 1 of 178 school districts will be impacted by the requirements of this bill. In total, \$330,000 would need to be reallocated.

Election Expenditure Impacts (For Informational Purposes Only)

The bill refers a measure to the voters at the November 2006 general election. This measure will be published in newspapers and an analysis of the measure will be included in the Blue Book mailed to all registered voter households prior to the election. Under current law, costs for these functions will be paid through a General Fund line item in the Long Appropriations Bill. The estimated costs for the 2006 Blue Book are outlined in Table 1.

Table 1. Estimated Costs of Producing the 2006 Blue Book and Distributing to All Registered Voter Households	
Printing	\$275,000
Postage	\$325,000
Translation	\$20,000
Newspaper Publication (English & Spanish)	\$600,000
Total Expenses (for an estimated 12 issues)	\$1,220,000
Average Expense Per Issue	\$101,667

State Appropriations

Although the bill contains appropriations for the amounts specified in this fiscal note, none is required at this time. Should this measure be approved by the voters at the 2006 general election, it is assumed that funding needs and costs identified in this fiscal note will be addressed through the annual budget/supplemental process.

Departments Contacted

Education

Omissions and Technical or Mechanical Defects

HB06-1283 requires that the state board report to the General Assembly these school districts that are unable to meet the 65 percent threshold by December 31st annually. Electronic financial data is due on December 31st with potential deadline extensions up to February 28th. These deadlines conflict with the reporting requirements and make it impossible for the state board to report on all school districts.