

  
*Colorado Legislative Council Staff Fiscal Note*  
**STATE and LOCAL**  
**FISCAL IMPACT**

**Drafting Number:** LLS 10-0179 **Date:** January 11, 2010  
**Prime Sponsor(s):** Rep. Massey; Middleton **Bill Status:** House Education  
**Fiscal Analyst:** Josh Abram (303-866-3561)  
 Sen. King K.

**TITLE:** CONCERNING THE CREATION OF A STABLE FUNDING PILOT PROGRAM FOR SMALL SCHOOL DISTRICTS THAT ENTER INTO AGREEMENTS TO JOINTLY PROVIDE SERVICES TO SAVE COSTS.

Fiscal Impact Summary	FY 2010-2011	FY 2011-2012
<b>State Revenue</b>		
<b>State Expenditures<sup>1</sup></b>		
General Fund		
School Finance	\$0.5 to \$5.1 million	\$0.6 to \$7.8 million
Program Administration	To Be Determined	To Be Determined
<b>FTE Position Change</b>	0.0 FTE	0.0 FTE
<b>Effective Date:</b> August 11, 2010, assuming the General Assembly adjourns May 12, 2010, as scheduled and no referendum petition is filed.		
<b>Appropriation Summary for FY 2010-2011:</b> None.		
<b>School District Impact:</b> See School District Impact section.		

<sup>1</sup> *The change in expenditures will vary depending on the enrollment growth thresholds that are defined to modify base year funding under the bill. Administrative costs for the pilot program have not yet been estimated. See State Expenditures section for details.*

**Summary of Legislation**

House Bill 10-1015 creates a pilot program in the Colorado Department of Education (CDE) to fund small school districts through the School Finance Act at a consistent level over 5 years. Small districts are defined as those with a funded pupil count of fewer than 2,000 students. Small districts can choose to participate in the program in either FY2010-11 or FY2011-12, but must remain in the program for the entire 5-year funding period once they decide to participate.

For FY 2010-11 through FY 2015-16, participating districts will annually receive total program funding equal to the amount received in FY 2009-10. This base year funding can be modified if there is a statewide increase in per pupil funding that is not related to the funded pupil count. In addition, the base year amount can be modified if a participating district's pupil enrollment increases or decreases in excess of certain thresholds. If the district's change in enrollment exceeds these thresholds, the base year funding will be recalculated based on the new pupil enrollment; however, the bill does not currently define these thresholds.

Participating districts are required to enter into memoranda of understanding with one or more districts or Boards of Cooperative Educational Services (BOCES) to jointly provide services and to share in costs, and may be required to satisfy additional criteria established by the State Board of Education. The CDE must create and administer the pilot program. The State Board is responsible for adopting necessary rules for the program. In addition, the board must conduct a final review and evaluation of the program and make recommendations to the General Assembly regarding its continuation.

**State Expenditures**

*The impact on state expenditures are for administration of the pilot program and for school finance. The impact on school finance will be dependent on the enrollment growth thresholds to be amended into the bill (the thresholds are not defined in the introduced bill). The following discussion of school finance is offered for illustrative purposes only. The expenses for administering the program have not been estimated. This fiscal note will be updated as this information becomes available.*

**School Finance.** If the enrollment growth thresholds are defined broadly, e.g. plus or minus 30 percent, more districts will find it beneficial to participate, assuming that most small districts have declining enrollment. With broadly defined thresholds, small districts will be less likely to experience enrollment changes large enough to trigger a recalculation of base year funding. In FY 2010-11, 91 small districts would benefit from the program and the General Fund would supply an additional \$5.1 million for school finance, assuming all 91 districts chose to participate.

Conversely, if the thresholds are defined more narrowly, e.g. plus or minus 5 percent, fewer districts would benefit from participation. Under this scenario, 19 districts would benefit and the increase for school finance would be \$0.5 million. In FY 2011-12, the number of eligible districts and the impact on school finance changes. Table 1 summarizes the range of state expenditures and the number of eligible districts for the next 2 fiscal years.

<b>Table 1. Number of Eligible Districts and School Finance Adjustments Under HB 1015 (\$ millions)</b>				
	<b>FY 2010-11</b>		<b>FY 2011-12</b>	
<b>Threshold</b>	<b>5%</b>	<b>30%</b>	<b>5%</b>	<b>30%</b>
<b>Eligible Districts</b>	<b>19</b>	<b>91</b>	<b>16</b>	<b>82</b>
<b>Total Program Increase</b>	<b>\$0.5</b>	<b>\$5.1</b>	<b>\$0.6</b>	<b>\$7.8</b>

*Table 1 is based on Legislative Council Staff forecasts of district enrollment growth and funded pupil counts, and assumes base per pupil funding increases of 0.1 percent in FY 2010-11 and 0.6 percent in FY 2011-12.*

Staff forecasts only account for the next two fiscal years. The projected impact on school finance in out years is beyond the Legislative Council Staff forecast period and will require school districts or the CDE to prepare longer term projections. For example, while it may be beneficial for a district to participate in either FY 2010-11 or FY 2011-12, a district may still choose not to

participate if they would lose funding in subsequent years that they would have received under current law. Consequently, the decision to participate will require districts or the CDE to forecast enrollment and current law funding through FY 2015-16, to allow districts to evaluate participation in the program.

*Administrative Expenses.* This fiscal note assumes that there will additional costs to the CDE to assist the State Board in adopting rules and to administer and evaluate the program. These costs have not yet been calculated by the department. This fiscal note will be updated as additional information becomes available.

### **School District Impact**

Schools with declining enrollment that participate will receive stable funding over 4-5 consecutive years, even in years in which their funding would have decreased based strictly on funded pupil count.

The requirement that participating districts enter into cooperative agreements with other small districts or BOCES to jointly provide services and share costs should result in lower expenditures, but the exact impact will depend on the specific details of these agreements. If small districts and BOCES are able to lower their costs while receiving a consistent amount of total program funding for 4-5 years, they should have additional revenue available for district use.

### **Technical Issues**

The school finance bill for FY 2009-10 (SB09-256) included a possible rescission of \$110 million. Further, budget reductions for public schools currently under consideration for FY 2010-11 could further reduce statewide public school finance. It is unclear how the base year funding in this bill will be impacted by the rescission and budget reductions, or how these changes will influence a district's decision to participate in the stable funding mechanism.

### **Departments Contacted**

Education      Law