

**STATE and LOCAL
FISCAL IMPACT**

Drafting Number: LLS 14-0590 **Date:** March 3, 2014
Prime Sponsor(s): Rep. Hamner; Buckner **Bill Status:** House Education
 Sen. Kerr; Steadman **Fiscal Analyst:** Marc Carey (303-866-4102)

SHORT TITLE: FINANCING OF PUBLIC SCHOOLS

Fiscal Impact Summary*	FY 2014-2015	FY 2015-2016
State Revenue	<u>\$12,859</u>	<u>\$12,859</u>
<i>Revenue Change</i>		
Cash Funds	\$12,859	\$12,859
State Expenditures	<u>\$19,064,677</u>	<u>\$60,156,768</u>
General Fund	\$17,064,677	\$60,156,768
Cash Funds	2,000,000	
Centrally Appropriated Costs**	\$10,640	\$11,096
FTE Position Change	1.1 FTE	1.1 FTE
Appropriation Required: \$68,084 General Fund - Department of Human Services (FY 2014-15) \$16,996,593 General Fund - Department of Education (FY 2014-15)		

* This summary shows changes from current law under the bill for each fiscal year.

** These costs are not included in the bill's appropriation. See the State Expenditures section for more information.

Summary of Legislation

This bill changes the "Public School Finance Act of 1994" by modifying the funding for K-12 public schools in FY 2014-15. The bill increases base per pupil funding to \$6,121, to reflect a 2.8 percent inflation rate. The bill also makes the following changes in the calculation of total program:

- limits the amount of the negative factor in FY 2015-16 to be less than or equal to the level of the negative factor in FY 2014-15;
- clarifies the method used to calculate the cost of living factor in years when average teacher salaries either decline or increase by less than 1 percent; and
- increases the number of slots in the Colorado Preschool Program (CPP) by 5,000, and adjusts the calculation of the negative factor for the cost of these increased slots.

In addition to changes to total program, for FY 2014-15 and beyond, the bill modifies the funding for other public school programs as follow:

- increases by \$2 million the appropriation to boards of cooperative educational services (BOCES); and
- allows school districts to operate with a higher limit on bonded indebtedness if the district's average annual increase in pupil enrollment for 3 or 5 years is at least 2.5 percent.

State Revenue

The bill will increase cash fund revenue by \$12,859 in FY 2014-15 and beyond. The revenue increase is because of an increase in the number of preschool students who will require preschool facilities and providers. The Colorado Department of Human Services is responsible for licensing and inspecting preschools throughout the state, and charges an annual licensing fee of \$77 per classroom or facility. The bill is expected to require 167 new classrooms at an average size of 15 students per classroom. If each classroom provides morning and afternoon sessions, the revenue would be \$12,859 annually.

State Expenditures

School finance in Colorado is governed by both 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, total program is estimated to cost \$5.762 billion in FY 2014-15, of which \$3.782 billion comes from state sources, mainly the General Fund.

Total Program Funding (Without passage of HB 14-1292). Section 3 of House Bill 14-1298 increases total program funding in FY 2014-15 by \$17.1 million to account for increases in the funded pupil count that result from the funding of the 5,000 additional CPP slots. As a result, the bill sets total program funding for FY 2014-15 at \$5.779 billion. This represents a 15.42 percent reduction from what funding levels would have been without the negative factor. The appendix details the funding changes that occur at the school district level as a result of this bill.

The \$5.779 billion in total program funding represents an estimated increase of \$252.6 million in FY 2014-15 compared with actual funding levels for FY 2013-14, and an estimated increase of \$17.1 million in FY 2014-15 relative to current law. State expenditures for school finance will increase by \$17.0 million, with local revenue making up the difference. Since the negative factor is set at 15.42 percent, each district's total program funding will be reduced by 15.42 percent from the level set by the funding formula before application of the negative factor, provided the district receives at least an amount of state aid that is greater than this percentage reduction.

In FY 2015-16, Section 3 of the bill specifies a maximum value for the size of the negative factor, thereby creating a minimum level of total program funding. Specifically, the value of the negative factor in FY 2015-16 may not exceed the difference between the calculated statewide total program and actual total program for FY 2014-15, which totals \$1,048,150,141, based on the provisions of this bill. This constant negative factor amount would increase state funding for total program by about \$60 million in FY 2015-16, relative to current law.

Total Program Funding (With passage of HB 14-1292). Section 4 of HB 14-1298 contains an alternative specification for both total program funding and the value of the negative factor in FY 2014-15 and FY 2015-16, contingent on passage of HB14-1292. In particular, total program funding in FY 2014-15 would be set at \$5.923 billion, representing an increase of \$160.9 million relative to current law. In FY 2015-16, the value of the negative factor would be capped at \$904.3 million, which would increase state funding for total program by about \$203.9 million relative to current law.

Cost-of-living factor adjustment. Under current law, the cost of living factor in the school finance funding formula is adjusted whenever the percentage increase in a school district's cost of living exceeds the percentage increase in the statewide average teacher salary. This bill clarifies that in the event the denominator in that calculation is greater than zero but less than 1 percent, the denominator will be rounded up to 1 percent. This change will not impact the cost of living factors used for FY 2014-15 or FY 2015-16 because the average teacher salary decreased between 2010 and 2012, but it could potentially decrease the cost-of-living factors in future years and the overall cost of school finance.

BOCES Funding. The bill increases the appropriation from the State Education Fund for BOCES by \$2,000,000.

Colorado Department of Human Services (CDHS). CDHS will incur costs of \$68,084 in FY 2014-15 and \$62,911 in subsequent years to license and inspect preschool facilities. It is assumed that an additional 167 preschool classrooms will be needed to serve 5,000 new preschool students. This requires 1.1 FTE annually. Currently, the caseload for licensing preschools in CDHS is 150 per specialist.

Centrally appropriated costs. Pursuant to a Joint Budget Committee policy, certain costs associated with this bill are addressed through the annual budget process and centrally appropriated in the Long Bill or supplemental appropriations bills, rather than in this bill. The centrally appropriated costs subject to this policy are estimated in the fiscal note for informational purposes and summarized in Table 1.

Table 1. Centrally Appropriated Costs Under House Bill 14-1298*		
Cost Components	FY 2014-15	FY 2015-16
Employee Insurance (Health, Life, Dental, and Short-term Disability)	\$6,718	\$6,718
Supplemental Employee Retirement Payments	3,922	4,378
TOTAL	\$10,640	\$11,096

*More information is available at: <http://colorado.gov/fiscalnotes>

School District Impact

Table 2 shows the estimate of school finance act funding under Senate Bill 14-1298. The table compares FY 2014-15 funding levels with actual funding in the prior year. In FY 2014-15, the bill does not increase per pupil funding, but does fund 14,303 new pupils. Total program funding is thus increased from \$5.527 billion to \$5.779 billion. Of this amount, the state's share is increased from \$3.588 billion to \$3.799 billion.

Table 2. School Finance Act Funding under House Bill 14-1298					
	Pupil Count	Per Pupil Funding	Total Program Funding	State Aid	Local Share
FY 2012-13 Act.	830,833	\$6,652	\$5,526,933,749	\$3,588,100,260	\$1,938,833,490
FY 2013-14 Est.	845,136	\$6,839	\$5,779,496,341	\$3,799,482,600	\$1,980,013,741
Percent change	1.72%	2.81%	4.57%	5.89%	2.12%
Increase	14,303	\$187	\$252,562,592	\$211,382,340	\$41,180,251

Pursuant to Section 22-32-143, C.R.S., school districts and Boards of Cooperative Educational Services (BOCES) may submit estimates of fiscal impacts within seven days of a bill's introduction. As of the date of this fiscal note, no summaries of fiscal impacts were submitted by districts or BOCES for this bill. If summaries of fiscal impacts are submitted by districts or BOCES in the future, they will be noted in subsequent revisions to the fiscal note and posted at this address: <http://www.colorado.gov/lcs>.

Effective Date

The bill takes effect upon signature of the Governor, or upon becoming law without his signature. Section 3 of the bill becomes effective if HB 14-1292 does not become law. Section 4 of the bill becomes effective if HB 14-1292 is approved by the legislature and Governor.

State Appropriations

For FY 2014-15, the bill requires:

- a \$16,996,593 General Fund appropriation to the Department of Education for the state's share of total program; and
- a \$68,084 General Fund appropriation to the Department of Human Services.

The bill includes the following appropriation:

- a cash funds appropriation from the State Education Fund for BOCES of \$2,000,000.

State and Local Government Contacts

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