Legislative Council Staff
Nonpartisan Services for Colorado's Legislature

Memorandum

July 29, 2025

TO: Interested Persons

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SUBJECT: Financing Public Schools for FY 2025-26

Summary

This memorandum summarizes the primary funding changes to school finance for FY 2025-26. Two bills during the 2025 legislative session substantively affected the financing of public schools in Colorado, including:

- House Bill 25-1320, the School Finance Act, which established funding levels for districts in FY 2025-26 and made a variety of changes related to school finance funding; and
- Senate Bill 25-315, which created a new mechanism for distributing funding for postsecondary workforce readiness, and decreased funding for the Accelerating Students through Concurrent Enrollment (ASCENT) program in FY 2025-26 before eliminating it in FY 2026-27.

Estimates in this memorandum reflect forecasted amounts. These estimates will be adjusted during the 2026 legislative session based on actual pupil counts and local property tax collections.

Background

This memorandum focuses on school finance funding for FY 2025-26, which is the first year of implementation of the new school finance formula adopted in House Bill 24-1448 (referred to as the "2024 formula", or the "new formula"). This new formula will be phased in over multiple years, replacing the formula that was initially adopted in 1994 (referred to as the "1994 formula" or the "old formula").

HB 25-1320 and SB 25-315 modified the new, 2024 formula, and made changes to the old formula for the purposes of calculating school district funding during the transition period.

FY 2025-26 School Finance Funding

Total program funding for public schools under the school finance formula is expected to total about $10.03 billion in FY 2025-26. Of this amount, the state provides 54.5 percent, or about $5.5 billion, while local property and specific ownership taxes are projected to provide about $4.6 billion (45.5 percent).

These totals incorporate the new school finance formula adopted in 2024, with the changes made to it in HB 25-1320 and SB 25-315. These changes include modifications to the phase in schedule, hold harmless provision, size and locale factors, and student count averaging, which are discussed further below.

Compared to the prior year, school district funding is expected to increase by 2.6 percent, or about $252.7 million in FY 2025-26, the result of a $376 million increase in local property and specific ownership taxes, and a $124.0 million decrease in state funding for school finance.

Base per pupil funding was set at $8,691.80 in FY 2025-26, which reflects a 2.3 percent inflationary increase, as required by Amendment 23.

Statewide average per pupil funding is expected to increase from $11,452 in FY 2024-25 to $11,858 in FY 2025-26, an increase of $407 or 3.6 percent.

Sources of State School Finance Funding

The General Assembly appropriates money for the state share of school finance from three funds – the General Fund, the State Education Fund, and the State Public School Fund – as shown in Figure 2.

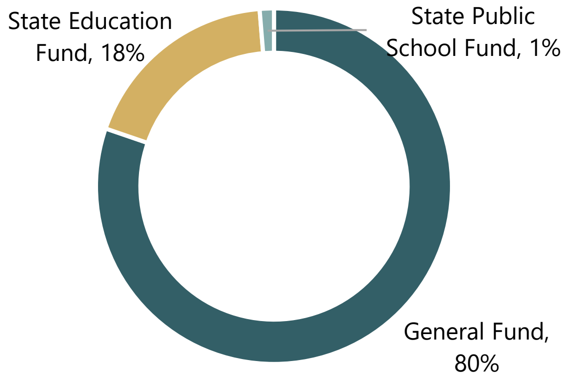
General Fund

The General Fund is the primary source for state aid to schools, accounting for 80 percent of the state share, or $4.4 billion, in FY 2025-26.

State Education Fund

The State Education Fund (SEF) provides the next largest share at 18 percent, or $1.0 billion in FY 2025-26. This fund was created by Amendment 23 and receives a portion of state income tax that is exempt from the state's TABOR limit. Money in the fund can only be spent for certain educational purposes specified in the state constitution. The newly created Kids Matter Account in the SEF does not begin receiving money until FY 2026-27 and thus, does not impact the SEF appropriation in FY 2025-26.

Figure 2. Sources of State Share



State Public School Fund

The State Public School Fund (SPSF) provides the remaining 1 percent, or $70.7 million, in FY 2025-26. This fund consists of interest earned by the Public School Fund (Permanent Fund), federal mineral leasing revenue dedicated by state law for public education, as well as a portion of marijuana tax revenue and rent and royalties from state school lands.

Base Per Pupil Funding

Amendment 23 requires that the General Assembly increase the statewide base per pupil funding amount by at least inflation each year. Inflation for the calendar year 2024 was 2.3 percent, and HB 25-1320 increased the statewide base by 2.3 percent, or $195.42, to $8,691.8. The statewide base is the dollar amount used to calculate a district's foundation funding under the new formula.

Under SB 25-315, the per pupil rate for students in the ASCENT program is set at $7,104 in FY 2025-26. The per pupil rate for online students and those in the other two extended high school programs increases to $10,480 in FY 2025-26.

Formula Changes

HB 25-1320 and SB 25-315 made several changes to the new formula adopted in 2024. These changes are incorporated into the totals discussed above.

Implementation of New School Finance Formula

The new formula was initially phased in over six years, with full implementation beginning in FY 2030-31. During that phase in period, districts would receive the greater of either their total program under the old formula plus 0.5 percent ("hold harmless amount"), or total program under the old formula, plus a portion of the difference between total program under the old and new formulas ("phased in total program"). These components were modified in HB 25-1320.

Phase-In of New Formula Total Program

HB 25-1320 extended the phase-in period from six to seven years, with the new formula fully implemented beginning in FY 2031-32. It also adjusted the phase in percentages, meaning that in FY 2025-26, districts receive their total program under the old formula, plus 15 percent of the difference between the old and new formulas, compared to the 18 percent they would have received under HB 24-1448. The updated phase in schedule is presented in Table 1 below.

Hold Harmless Provisions

The bill also modified the hold harmless provision during the phase in period. Districts receive at least their FY 2024-25 total program amount in FY 2025-26 and FY 2026-27 and at least their total program under the old formula plus 1.0 percent from FY 2027-28 through FY 2030-31. Hold harmless provisions under HB 25-1320 are shown in Table 1 below.

Table 1
Phase In Percentages and Hold Harmless Provisions Under HB 25-1320

Year	Phase In Percentages	Hold Harmless
FY 2025-26	15%	FY 2024-25 Actual
FY 2026-27	30%	FY 2024-25 Actual
FY 2027-28	45%	Old Formula + 1%
FY 2028-29	60%	Old Formula + 1%
FY 2029-30	75%	Old Formula + 1%
FY 2030-31	90%	Old Formula + 1%
FY 2031-32	100%	N/A

Student Counts

Averaging and Smoothing

As adopted in HB 24-1448, the new school finance formula provides funding based on the greater of the district or state Charter School Institute (CSI) school current year student count, or an average of the current year count and one, two, or three prior year counts (a provision known as four-year averaging). For purposes of calculating total program through the phase in period, the old formula maintains a five-year averaging provision.

HB 25-1320 did not change the four-year averaging provision for the new formula for FY 2025-26. Beginning in FY 2026-27, however, the bill specified that three-year averaging is used to determine the funded pupil count, with the following two conditions:

- If the new formula is not phased in at 30 percent in FY 2026-27, then four-year averaging is used on an ongoing basis.
- If the balance in the SEF is projected to be less than $200 million on June 30, 2027, based on the March 2027 Legislative Council Staff (LCS) revenue forecast, then, beginning in FY 2027-28, the General Assembly must implement a smoothing factor or two-year averaging is used for the new formula. The bill does not specify parameters for a smoothing factor, but requires that a geographically diverse set of school districts be consulted regarding its development and implementation.

Beginning in FY 2027-28, HB 25-1320 specifies that the old formula must use the same method for calculating funded pupil count as the new formula for purposes of calculating total program through the phase in period. This means that the same number of years will be averaged in both cases, whereas HB 24-1448 would have used five-year averaging in the old formula and four-year averaging in the new formula. Averaging parameters for the new formula under HB 25-1320 are presented in Table 2 below.

Table 2
Averaging or Smoothing Provisions under HB 25-1320

Year	Averaging or Smoothing Provisions
FY 2025-26	Four-year averaging
FY 2026-27	Three-year averaging, except that four-year averaging is used starting in FY 2026-27 if the new formula is not phased in at 30%.
FY 2027-28	Three-year averaging, except that if the SEF balance falls below $200 million, two-year averaging or a smoothing factor is used.
FY 2028-29	Averaging or smoothing provision determined in FY 2027-28
FY 2029-30	Averaging or smoothing provision determined in FY 2027-28
FY 2030-31	Averaging or smoothing provision determined in FY 2027-28
FY 2031-32	Averaging or smoothing provision determined in FY 2027-28

Counts for Averaging

HB 25-1320 specifies that if the Colorado Department of Education (CDE) determines that student counts for preceding years used for averaging included pupils who were educated in a setting equivalent to a multi-district online program, then adjusted counts that exclude those pupils must be used to calculate funded pupil count under the old and new formulas. Adjusting prior year student counts impacted eight districts- Adams 12, Douglas, Eagle, Plainview, Poudre, Mesa, Steamboat, and Vilas - in FY 2025-26, including adjustments to CSI counts geographically located in those districts.

Locale Factor

A district's locale factor, intended to capture a district's relative remoteness, is based on its designation by the National Center for Education Statistics (NCES). Under HB 25-1320, districts receive locale factor funding based on either the district's most recent NCES designation, or the immediately prior designation, whichever results in a greater locale factor. This change resulted in five districts utilizing their prior designation and receiving additional funding – East Grand, Gilcrest, Gunnison, Ouray, and Telluride.

In addition, HB 25-1320 further adjusted district NCES designations by allowing the CDE to exclude multi-district online students from a district's funded pupil count for purposes of determining district locale factors. This allowance changed the locale factor for three districts:

Byers from “Suburban: Large” to “Rural: Remote”, Las Animas from “City: Midsize” to “Rural: Remote”, and Julesberg from “Suburban: Large” to “Rural: Remote”.

Size Factor

District size factors are determined by a formula in state law, based on a district’s funded pupil count. HB 25-1320 specified that for the purposes of calculating a district’s size factor, funded pupil count does not include multi-district online students. This change increased size factor funding for thirteen districts with multi-district online students - Archuleta, Bayfield, Branson, Byers, Dolores, Durango, Ignacio, Julesberg, Las Animas, Mancos, Mapleton, Monte Vista, and Peyton.

ASCENT

Extended high school students, including those participating in the ASCENT program, are funded at a flat per pupil rate in the school finance formula. SB 25-315 reduced the per pupil rate for ASCENT students from $10,480 to $7,104 in FY 2025-26, decreasing total program by about $4.4 million for the 57 districts with ASCENT students. Beginning in FY 2026-27, the ASCENT program is repealed.

SB 25-315 did not change the per pupil funding rates for students in the other two extended high school programs (TREP and PTech). The bill requires that CDE convene a working group to make recommendations concerning those programs to the Joint Budget Committee (JBC) by December 1, 2025.

Related School Finance Changes

Kids Matter Account in the State Education Fund

HB 25-1320 creates the Kids Matter Account in the State Education Fund. Beginning in FY 2026-27, state revenues collected from an existing tax on 65 percent of one-tenth of one percent of federal taxable income must be deposited in the account. Money in the fund must only be used for total program funding and categorical programs and is subject to annual appropriation by the General Assembly.

Similar to how current diversions of tax revenue to the State Education Fund are calculated and certified, the bill requires LCS, in consultation with the Office of State Planning and Budgeting (OSPB), to calculate the amount of revenues to be deposited in the account, certify those amounts to the Department of Revenue for transfer into the account, and correct the amounts if needed.

Charter School Distributions

For FY 2025-26 only, HB 25-1320 modified the calculation of the amount of total program funding that school districts distribute to district-authorized charter schools and the state distributes to CSI schools. In addition to the amount calculated under the current allocation system using the old formula, charter schools will receive an incremental per pupil funding amount based on the 15 percent phase in of total program funding received by their authorizing or geographic district under the new formula.

Implementation Conditions

Under HB 24-1448, implementation of the new formula is stopped if the JBC determines that the income tax diversion to the SEF will decrease by at least 5 percent year over year during the new phase in period. HB 25-1320 clarifies that this condition is not initiated if the JBC determines that the year over year decline is due to a correction to an error in the amount of income tax revenue deposited in the SEF.

At-risk Students

House Bill 22-1202 established a new mechanism for counting at-risk students in the school finance formula. The new measure has not yet been implemented, and HB 25-1320 further delayed its implementation until FY 2026-27. It also gave the State Board of Education the authority to suspend the collection of student census block groups for the purposes of counting at-risk students under the new at-risk measure, if the block group data produces a substantially similar outcomes to other means of counting at-risk students. If suspended, the bill allows the board to restart the collection later.

In addition, the bill clarified that a student's eligibility for at-risk funding may be determined through any means, including direct certification for Medicaid benefits or free- and reduced-price lunch forms. This clarification codifies existing practice and is not expected to change the number of qualifying at-risk students.

Capital Construction

Revenue to Public School Capital Construction Assistance Fund

HB 25-1320 establishes a cap on the amount of revenue deposited in the Public School Capital Construction Assistance Fund (PSCCAF). The cap is set at $150 million in FY 2024-25, and is adjusted for inflation in subsequent years. Any revenue generated above the cap must be credited to the SPSF; this amount is estimated to be $45.6 million in FY 2025-26. The revenue deposited in the PSCCAF must include the lesser of $40 million or all revenue generated from retail marijuana excise tax, as required by the Colorado Constitution.

The OSPB must report in its November 1 budget request the amount credited to the SPSF, and the JBC must consider whether to continue crediting money to the SPSF through the cap.

Permanent Fund Interest and Income

Interest and income earned on the Permanent Fund is distributed based on requirements in state law, with the first $41.0 million distributed for various purposes. Beginning in FY 2024-25, HB 25-1320 specifies that any interest and earnings above $41 million is credited to the PSCCAF and is not subject to the new $150 million revenue cap described above.

Certificates of Participation

HB 24-1448 increased the limit on the amount of certificates of participation for public school capital construction projects from $125 million to $150 million. HB 25-1320 correspondingly increases the appropriation for the payments on these certificates of participation by $25.0 million, of which half is paid by the state and half is paid by local schools and districts.

Postsecondary Workforce Readiness

SB 25-315 established a new mechanism for distributing funding to districts and schools for postsecondary workforce readiness (PWR) programs. The new PWR program is funded by the repeal of several grant programs and savings from the changes to the ASCENT program. The new mechanism includes three components, described below.

- ***Start-up funding*** distributes funding to local education providers for the development and implementation of programs that improve access to postsecondary credits, industry-recognized credentials, or work-based learning. The State Board of Education must establish a formula to distribute the funds, which will be awarded through FY 2027-28.

- ***The John W. Buckner PWR Innovation Grant Program*** awards grants to local education providers that are required to adopt priority improvement or turnaround plans, or demonstrate a low level of attainment on the PWR readiness indicator. Grants begin in FY 2028-29 and may be used for the development and implementation of programs that support students in completing postsecondary credit, credentials, or work-based learning.
- ***Sustain funding*** provides reimbursement to local education providers for each student who obtains postsecondary credit, receives a credential, or satisfies work-based learning requirements. The funding begins in FY 2026-27 and must be used to maintain or expand PWR programs. The State Board of Education will determine the reimbursement amounts for each category, although SB 25-315 specifies the portion of funding that must be used in each category for FY 2026-27 only.

Additional At-Risk and At-Risk Supplemental Aid

Beginning in FY 2025-26, HB 25-1320 repeals additional at-risk funding, which was distributed to school districts based on the number of at-risk pupils enrolled. That funding totaled $5.0 million annually in recent years.

HB 25-1320 also phases out $7.0 million in annual at-risk supplemental funding, which is distributed to eligible school districts and charter schools based on the relative portion of at-risk students served. Districts and charter schools will receive the same funding amount in FY 2025-26 as they did in FY 2024-25, 50 percent of that level in FY 2026-27, and the funding is eliminated in FY 2027-28.

School Transportation

HB 25-1320 updated state law related to school transportation, including:

- differentiating multifunction school activity buses from school buses;
- updating statute to align with federal and CDE rules that prohibit 15-passenger vans from being used, and commercial driver regulations related to stopping at railroad crossings;
- providing flexibility on the permissible school bus braking systems;
- repealing the requirement that vehicles stop for school buses without flashing lights; and
- allowing school districts to develop their own school bus driver training.

Other Changes

HB 25-1320 also made the following changes to education programs:

- removing the requirement that CDE utilize a third party to implement a public information campaign related to the importance of reading;
- increasing the cap on the Moral Obligation Program for qualified charter schools from $750 million to $1.0 billion; and
- delaying the reporting requirements for the Out-of-School Time Grant Program by one year and allowing CDE to spend any unspent money for the program through FY 2026-27 without further appropriation.