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Memorandum

October 20, 2022

TO: Members of the General Assembly

FROM: Anna Gerstle, Senior Fiscal Analyst, 303-866-4375

SUBJECT: Financing of Public Schools for FY 2022-23

Summary

This memorandum summarizes the primary funding changes for school finance that were enacted during the 2022 legislative session. Several bills enacted substantively impacted the financing of public schools in Colorado, including the following:

- House Bill 22-1390 provided funding for school districts in FY 2022-23, modified the ASCENT program, and made a variety of changes related to education programs;
- House Bill 22-1202 established a new method for counting at-risk students;
- House Bill 22-1295 established the Universal Preschool Program in the new Department of Early Childhood, beginning in FY 2023-24;
- Senate Bill 22-127 increased special education funding; and
- Senate Bill 22-202 created a state matching program for school district mill levy override revenue; and
- Senate Bill 22-238 temporarily lowered assessment rates used to calculate property taxes.

Estimates in this memorandum will be adjusted during the 2023 legislative session through the enactment of the Colorado Department of Education (CDE) supplemental bill, based on actual pupil counts and local property tax collections.

Contents

Overview of School Finance Funding Changes

School Finance Act. The School Finance Act is expected to provide about $8.4 billion in total program to school districts in FY 2022-23. The state provides about 60 percent of this amount, or $5.1 billion, while local property and specific ownership taxes are projected to provide about $3.4 billion.

Change from FY 2021-22. School district funding is expected to increase by 5.4 percent, or $433.1 million, in FY 2022-23, compared with the prior year. The change in funding will come from a $76.5 million increase in school district property and specific ownership taxes, and a $356.6 million increase in state funding for school finance.

Base per pupil funding. House Bill 22-1390 established the base per pupil funding amount at $7,478, which reflects a 3.5 percent inflation rate increase, as required by Amendment 23.

Statewide average per pupil funding. In FY 2022-23, the statewide average per pupil funding is expected to increase from $9,015 to $9,559, an increase of 6.0 percent, or $545.

Formula changes. Bills passed during the 2022 legislative session made the following changes to the school finance formula:

- removed the cap on the number of students that can participate in the ASCENT program, beginning in FY 2022-23;

- established a new method for counting at-risk students, to begin in FY 2023-24 and be informed by a task force recommendation that is due to the legislature in January 2023; and

- removed preschool counts from the calculation of a district's funded pupil count beginning in FY 2023-24. This funding will instead be distributed through the Universal Preschool Program in the Department of Early Childhood (DEC).

Special education funding. SB 22-127 provided $80.0 million for special education students, including raising the Tier A per pupil rate from $1,250 to $1,750 per student and up to $26.8 million for Tier B students, with inflationary increases in subsequent years.

Property tax assessment rates. SB 22-238 temporarily lowered the assessment rates used to calculate property taxes for the 2023 and 2024 property tax years, thus reducing the local share funding for all districts and revenue from override mills for some districts.

Additional changes. HB 22-1390 made a variety of technical, administrative, and funding changes to education-related programs, and SB22-202 created a program to distribute state funds to eligible school districts to match money raised through mill levy overrides. These changes are discussed in the Other Provisions section below.

School Finance Act Funding

The Public School Finance Act of 1994 is the mechanism through which school districts receive state aid and local funds for operating purposes. In FY 2022-23, the act is expected to provide $8.4 billion to school districts, of which the state is expected to provide $5.1 billion (60 percent), and local revenue sources provide $3.4 billion (40 percent). Figure 1 shows the relative shares for state and local funding.

Figure 1
State and Local Shares
FY 2022-23

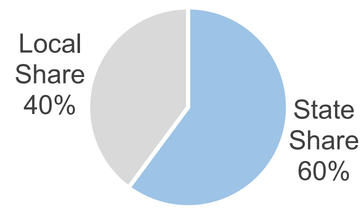
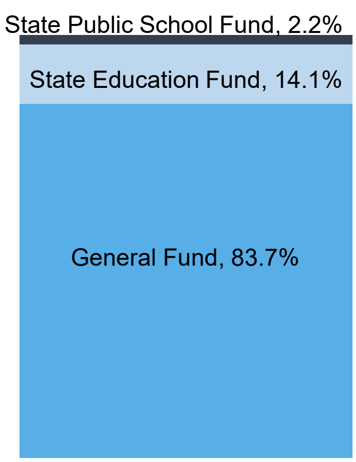


Figure 2
State Funding Sources, FY 2022-23
(Total state share is $5.1 billion)



Sources of state 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 illustrated in Figure 2.

- *General Fund.* The General Fund is the primary source for state aid to schools, accounting for 83.7 percent of the state share, or $4.2 billion, in FY 2022-23.

- *State Education Fund.* The State Education Funding provides the next largest share at 14.1 percent, or $715 million. This fund was created by Amendment 23 and receives a portion of state income tax, which is exempted from the state TABOR limit. Money in the fund can only be spent for certain educational purposes specified in the state constitution. The SEF also receives an allocation of funding from cigarette and tobacco tax revenue through FY 2022-23.

- *State Public School Fund.* The State Public School Fund provides the remaining 2.2 percent, or $112.9 million, in FY 2022-23. This fund consists of interest earned by the Public School 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 2021 was 3.5 percent, and HB 22-1390 increased the statewide base by $252.88 to $7,478.16 in FY 2022-23. The statewide base is the dollar amount to which each district's size, cost of living, and personnel costs factors are applied in order to determine the district's per pupil funding.

An increase in the statewide base also triggers an increase in per pupil funding provided to districts for students enrolled in online or extended high schools. These amounts increased by the same percentage as the statewide base, or 3.5 percent, in FY 2022-23. As a result, online and extended high school per pupil funding increased from $8,712 in FY 2021-22 to $9,017 in FY 2022-23. After the application of the budget stabilization factor, this per pupil funding amount will be $8,686 in FY 2022-23.

ASCENT Changes

The Accelerating Students through Concurrent Enrollment (ASCENT) program allows selected students to enroll in postsecondary courses and be included in a local education provider's pupil enrollment during the year following the student's fourth year of high school. HB 22-1390 removed the limit on the number of students who can participate (500 in recent years), and allowed the district or school to designate eligible students for participation instead of the CDE. It also reduced the number of credit hours of postsecondary work that students are required to complete prior to the student's twelfth grade year from 12 to 9 in order to be eligible for ASCENT.

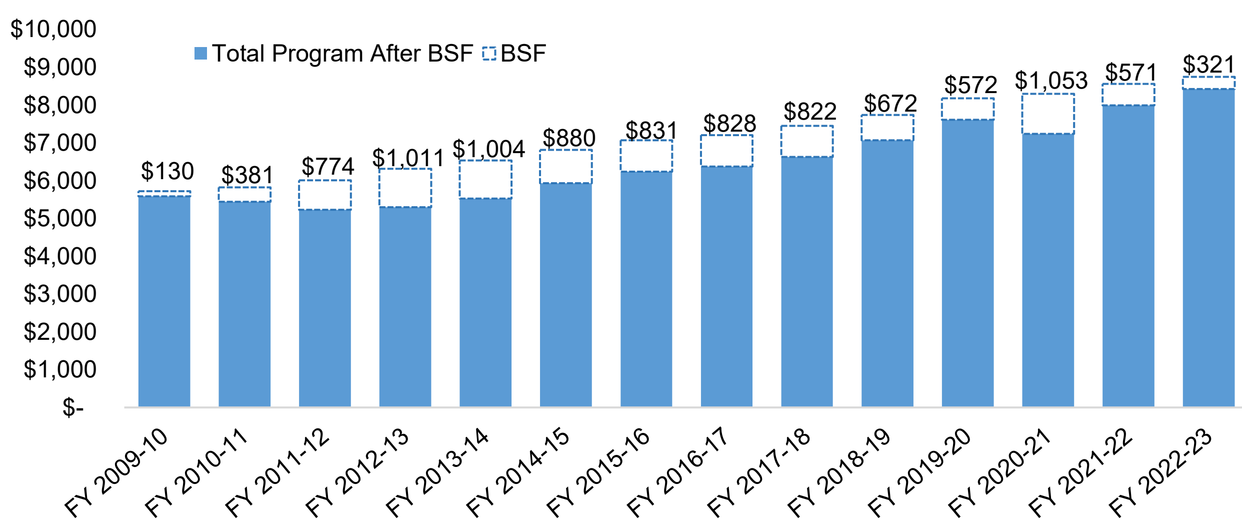
It is estimated that there will be 350 additional students participating in the ASCENT program in FY 2022-23, for a cost of approximately $2.1 million. Participation numbers will be adjusted during the 2023 legislative session based on actual participation, and the extended high school per pupil rate after the application of the budget stabilization factor.

Budget Stabilization Factor

The school finance act includes a budget stabilization factor (BSF) that reduces the amount of state aid allocated to school districts based on the available state revenue and other budget priorities set by the General Assembly. The budget stabilization factor reduces total program funding by a specific percentage; for FY 2022-23, it is set to reduce each school district's total program funding by 3.67 percent, which amounts to an overall reduction in state aid of $321.2 million. The local share of school finance is not impacted. Without the budget stabilization factor, school finance funding would have been about $8.7 billion in FY 2022-23.

For FY 2022-23, the budget stabilization factor decreased by $182.0 million compared to FY 2021-22. Figure 3 illustrates the level of total program funding and the budget stabilization factor for all districts since it was implemented in FY 2009-10.

Figure 3
Total Program Funding After Budget Stabilization Factor
Dollars in Millions



Source: Joint Budget Committee Staff and Legislative Council Staff.

Process. The budget stabilization factor is generally the product of two separate policy decisions by the General Assembly. First, the Long Bill requires that the budget stabilization factor be established to determine an initial appropriation for state aid under the school finance act. The final budget stabilization factor is then set in the school finance bill, which adjusts the appropriation for state aid accordingly.

FY 2023-24. Under HB 22-1390, the value of the budget stabilization factor in FY 2023-24 cannot exceed the FY 2022-23 level of $321.2 million. This is expected to increase overall funding, relative to initial appropriations, by $514 million and raise per pupil funding by $825, as a result of the required inflationary increased and the projected change in enrollment. These changes will be reflected in the 2023 Long Bill, but the General Assembly may adjust this amount up or down in the 2023 school finance bill or other legislation.

Example. Calculation of funding for an individual school district begins with the district's total program funding level as determined by the statutory school finance formula. The budget stabilization factor is then applied to implement a specific percentage reduction in funding. Table 2 illustrates how the budget stabilization factor reduces funding for two school districts in FY 2022-23. The budget stabilization factor reduces funding for the Greeley and Hinsdale school districts by 3.67 percent, which decreases state aid for Greeley by $8.3 million and Hinsdale by $59,518. The local share is unaffected by the budget stabilization factor.

Table 2
Example of Budget Stabilization Factor Applications

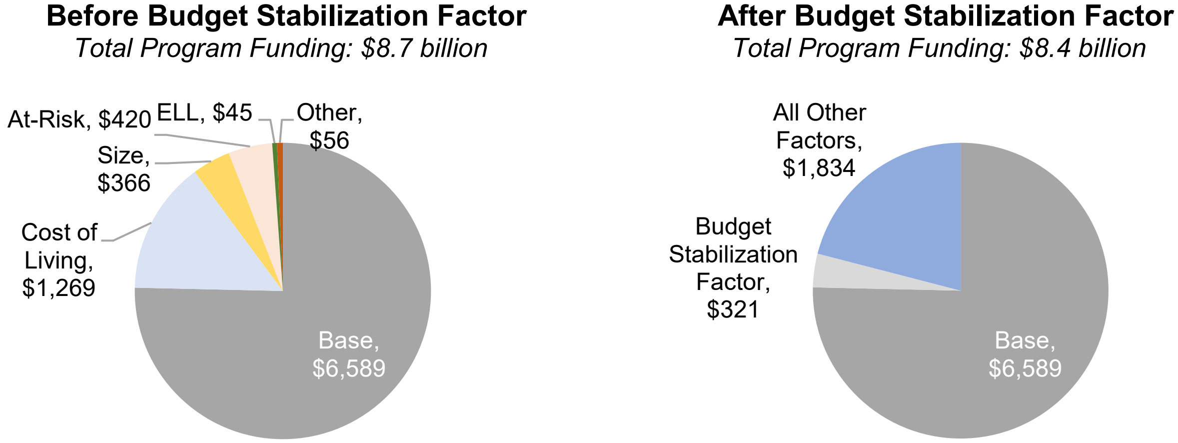
	Before BSF		BSF (3.67%)	After BSF	
School District	Total Program	State Share		Total Program	State Share
Greeley	$225,612,866	$165,314,345	($8,290,478)	$217,322,388	$157,023,867
Hinsdale	$1,619,686	$477,837	($59,518)	$1,560,168	$418,319

For some districts with limited state aid, the budget stabilization factor percent reduction may be less than 3.67 percent. One district, Pawnee, is in this situation in FY 2022-23.

Contribution of Formula Factors

Figure 4 shows the allocation of funding through each factor in the school finance formula before the application of the budget stabilization factor, and the addition of the budget stabilization factor. Because the General Assembly cannot decrease base per pupil funding, the budget stabilization factor has the effect of reducing only factor funding.

Figure 4
Formula Factors
Dollars in Millions



At-Risk and Preschool Formula Changes

Two bills passed during the 2022 session will impact school finance funding in FY 2023-24. They do not impact school finance funding in FY 2022-23.

At-risk definition. HB 22-1202 created a new at-risk measure in the school finance formula to identify students who are at risk of below-average academic outcomes due to socioeconomic disadvantage or poverty. The new measure begins in FY 2023-24, and includes:

- a district's percentage of students certified as eligible for free lunch based on receipt of public benefits (SNAP, TANF, Food Distribution Program on Indian Reservation) or categorical eligibility (foster, homeless, migrant, runaway or head start), supplemented by the direct certification of students participating in Medicaid or Children's Basic Health Plan; and

- a neighborhood socioeconomic status index that weights student needs based on at least five socioeconomic status neighborhood factors, linked to each student's census block group.

The bill requires that CDE convene a working group to prepare for the implementation of the new measure, including determining the neighborhood socioeconomic status index. The exact impact on total funding and individual districts will depend on how the components are implemented, such as determination of the neighborhood socioeconomic status index, the composition of at-risk factor funding based on the new measure, any hold harmless provisions, among other things.

Preschool counts. Beginning in FY 2023-24, HB 22-1295 removed preschool counts from the calculation of a district's funded pupil count in the school finance formula, including preschool special education counts and Colorado Preschool Program slots. In that year, the amount of state funding attributable to these students in FY 2022-23 will be transferred to the Preschool Programs Cash Fund and used for the new Universal Preschool Program in the DEC.

The bill establishes provisions for the DEC to distribute preschool funds to school districts, including a hold harmless provision that species if a school district or charter school receives less preschool funding in FY 2023-24, than they received in FY 2022-23 through the Colorado Preschool Program, the district or charter school must receive the difference between the two amounts in FY 2023-24.

Categorical Programs

Categorical programs provide funding for specific educational purposes. Amendment 23 defines certain programs, including special education and pupil transportation, among others, as categorical programs and requires that state funding for these programs in the aggregate increase by at least inflation in FY 2021-22. Generally, funding for categorical programs is in the Long Bill, and substantive changes to the administration and financing of categorical programs are contained in other legislation.

SB 22-127. Beginning in FY 2022-23, the bill increased special education funding by $80.0 million. Specifically, SB 22-127 increased Tier A funding, which is allocated for every student with a disability, from $1,250 to $1,750 per student, with most of the remainder of the funds utilized for Tier B distributions. Tier B distributions for students with specific, identified disabilities. The Tier A and B funding amounts must increase by inflation annually, beginning in FY 2024-25.

In addition, the bill required that the Special Education Fiscal Advisory Committee complete a report analyzing special education funding models and disability categories, the actual costs to provide services, and other recommendations related to Colorado's special education funding model.

Table 3 shows the FY 2022-23 state appropriations for categorical programs. The additional special education funding in SB22-127 represents the required inflationary increase for categorical programs in FY 2022-23. Note that some of these programs, such as special education and English language proficiency, receive federal funds in addition to the amounts shown in Table 3.

Table 3
Appropriations for Categorical Programs
Dollars in Millions

Categorical Program	FY 2021-22 Appropriation	FY 2022-23 Appropriation	Change from Prior Year	Percent Change
Special Education	$220.2	$300.2	$80.0	36.3%
Transportation	$62.8	$62.8	$0.0	0.0%
Vocational Education	$28.2	$28.2	$0.0	0.0%
English Language Proficiency	$25.3	$25.3	$0.0	0.0%
Gifted and Talented	$13.0	$13.0	$0.0	0.0%
Expelled & At-Risk Student Services	$9.5	$9.5	$0.0	0.0%
Small Attendance Centers	$1.3	$1.3	$0.0	0.0%
Comprehensive Health Education	$1.1	$1.1	$0.0	0.0%
Total	**$361.4**	**$441.4**	**$80.0**	**22.1%**

Source: FY 2022-23 Appropriations Report, Joint Budget Committee Staff. *Numbers may not sum due to rounding.*

State Match for Mill Levy Override Revenue

Beginning in FY 2022-23, SB 22-202 directed CDE to distribute to each eligible school district and institute charter school an amount of state matching money for local money raised through voter-approved mill levy overrides (MLOs). The bill includes a formula to calculate a district's MLO maximum, MLO capacity, and the amount of state funds that the district is eligible for. The bill appropriates $10.0 million for the program in FY 2022-23, and it is expected that 26 districts with existing, voter-approved MLOs would be eligible for a state match. If all districts enacted MLOs to the maximum allowable level, it is estimated that 72 districts would receive $163.1 million in state matching funds. More detailed information is available here: http://leg.colorado.gov/bills/sb22-202

Assessment Rate Changes

SB 22-238 reduced the assessment rates for property taxation in the 2023 and 2024 property tax years, which will reduce local share funding for all districts and revenue from override mills for some districts. The bill is estimated to reduce local share funding by $183 million in FY 2023-24 and by $73 million in FY 2024-25, relative to what otherwise would have been collected without the changes in assessment rates. These amounts correspondingly increase the state aid requirements in these years. A more detailed breakdown of changes in assessment rates can be found here: http://leg.colorado.gov/sites/default/files/documents/2022A/bills/fn/2022a_sb238_f1.pdf

Other Provisions

Transfers. HB 22-1390 and SB 22-202 combined to transferred $290.0 million from the General Fund to the State Education Fund in FY 2022-23. In addition, SB 22-238 transferred $200.0 million from the General Fund to the State Public School Fund in FY 2022-23.

Mill levy override equalization. HB 22-1390 appropriated $1.0 million from the General Fund to the Mill Levy Equalization Fund in FY 2022-23. This amount is assumed to be ongoing.

District audits. HB 22-1390 specified that for FY 2021-22 through FY 2023-24, the contingency reserve fund may be used for a rural or small rural school district that experiences an unusual financial burden from the withholding of property tax revenue, as a result of a delay in filing their annual financial audit report with the Office of the State Auditor due to extraordinary problems that could not have been reasonable foreseen or prevented.

American Indian mascots. If a public school was not notified by July 28, 2021 that their mascot is prohibited because it includes an American Indian tribe, individual, or custom, the school has one year from the time of notification to discontinue the use of the mascot.

Home-based education codes. HB 22-1390 required that CDE issue a separate school code for the two homeschool enrichment programs in the St. Vrain and Aurora school districts, and any similar programs approved for a new code by CDE after May 21, 2022.

BOCES schools. HB 22-1390 extended for six months, through December 31, 2022, the requirement that a Board of Cooperative Educational Services (BOCES) obtain written consent from a school district before authorizing a school or an additional location of an existing school that is physically located within the boundaries for that district, provided the school district is not a member of the BOCES. This requirement does not apply to a school operating prior to June 11, 2021, as long as the school continues to operate through December 31, 2022.

School choice. HB 22-1390 specified that if a school district enrolls a student whose parent is a resident of the state, but not the district, the school district must not charge tuition for the student to attend school in the district, regardless of the circumstances of the student's enrollment.

Program changes. HB 22-1390 made the following changes to education policies and programs:

- extended the dyslexia screening and intervention pilot program by one year;
- extended the K-5 Social – Emotional Health Pilot Program by one year;
- allowed districts to carry over more than 15 percent of FY 2021-22 READ Act per pupil intervention funds for use in FY 2022-23;
- allowed recipients of the educator recruitment and retention grant to agree to teach in an educator shortage area as a condition of program participation;
- clarified the program match requirement for vendors that contract with CDE to develop a quality teacher and recruitment program;
- repealed the provision allowing CDE to annually reallocate money among providers participating in the local school food purchasing program;
- allowed 20 percent of the money appropriated for the Imagination Library program in FY 2022-23 and thereafter to be used by the contracted program operator for operating costs; and
- specified that, due to the suspension of funding in FY 2020-21, the third year of the local accountability system grant program is FY 2022-23, and appropriated $100,000 for the program evaluation that must occur in the program's third year.