Legislative Council Staff
Nonpartisan Services for Colorado's Legislature

Memorandum

September 3, 2026

TO: Interested Persons

FROM: Anna Gerstle, Principal Fiscal and School Finance Analyst

SUBJECT: Financing Public Schools for FY 2026-27

Summary

This memorandum summarizes the primary funding changes to school finance for FY 2026-27.

The following bills during the 2026 legislative session substantively affected the financing of public schools in Colorado:

- Senate Bill 26-023, the School Finance Act, which established funding levels for FY 2026-27 and made a variety of changes related to school finance funding;
- House Bill 26-1357, which phased out the Teacher Recruitment Education and Preparation (TREP) program; and
- House Bill 26-1364, which specified calculation of the 2025 Denver-Aurora-Lakewood Consumer Price Index (CPI) inflation that is used to determine school finance funding for FY 2026-27.

Estimates in this memorandum reflect forecasted amounts, with the inclusion of all three bills, and will be adjusted during the 2027 legislative session based on actual pupil counts and local property tax collections.

Senate Bill 26-135, which allows the state to retain money above its current revenue limit and spend a portion of it on K-12 education, was referred to the voters as Proposition NN at the November 2026 election. It is not reflected in this memorandum, as it is contingent upon voter approval.

Background

This memorandum focuses on school finance funding for FY 2026-27, the second year of implementation of the new school finance formula ("new formula") initially adopted in House Bill 24-1448. This new formula will be phased in over multiple years and eventually replace the formula adopted in 1994 ("old formula").

FY 2026-27 School Finance Funding

Total program funding for public schools is expected to be about $10.2 billion in FY 2026-27. Of this amount, the state provides 54.7 percent, or about $5.6 billion, while local property and specific ownership taxes are projected to provide about $4.6 billion (45.3 percent). These totals reflect all bills adopted during the 2026 legislative session, and the changes discussed below.

Compared to the prior year, school funding is expected to increase by 1.8 percent, or about $180.8 million in FY 2026-27, the result of a $21.9 million decrease in local property and specific ownership taxes and a $202.7 increase in state funding for school finance.

Base per pupil funding was set at $8,900.40 for FY 2026-27, which reflects a 2.4 percent inflationary increase, as required by Amendment 23 and discussed below.

Statewide average per pupil funding is expected to increase from $11,876 in FY 2025-26 to $12,325 in FY 2026-27.

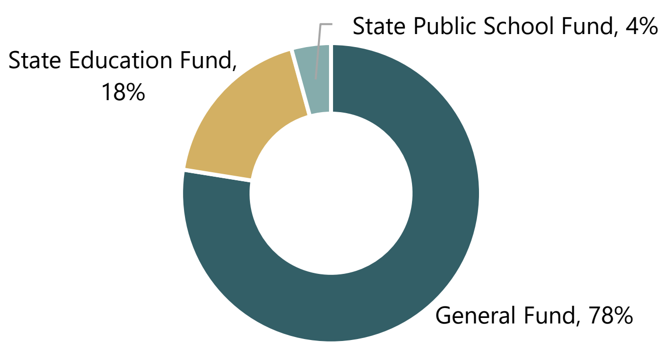
Sources of State School Finance Funding

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 1.

General Fund

The General Fund is the primary source of state aid to schools, accounting for 78 percent of the state share, or $4.3 billion in FY 2026-27. The General Fund contribution to school finance decreased by $70 million compared to FY 2025-26.

Figure 1. Sources of State Funding



State Education Fund

The State Education Fund (SEF) provides the next largest share at 18 percent, or $1.01 billion in FY 2026-27. 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 SEF appropriation also includes $212.3 million from the Kids Matter Account in the SEF. This account was created in House Bill 25-1320 and receives an amount equal to 65 percent of one-tenth of one percent of federal taxable income, beginning in FY 2026-27. Money in the account must only be used for total program funding and categorical programs and is subject to annual appropriation by the General Assembly.

State Public School Fund

The State Public School Fund (SPSF) provides the remaining 4 percent, or $238.2 million, in FY 2026-27. This fund consists of interest earned by the Public School Fund (Permanent Fund), federal mineral leasing revenue dedicated by state law for public education, a portion of marijuana tax revenue, and any revenue that exceeds the cap on revenue to the Public School Capital Construction Assistance Fund.

House Bill 26-1359 diverted $25.0 million in FY 2025-26 and $45.0 million in FY 2026-27 in State Land Board revenue from the Permanent Fund to the State Public School Fund. The diverted funds offset the $70 million decrease in General Fund appropriations for the state share.

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 2025 was 2.4 percent, as set in House Bill 26-1364.

HB 26-1364 specified that the level of 2025 Denver-Aurora-Lakewood Consumer Price Index (CPI) for determining inflation was equal to the average of CPI in the first half of the year and the second half of the year, rather than the published annual value. Using the average of CPI in the two halves of the year resulted in 2025 inflation of 2.4 percent, whereas using the published annual value resulted in 2.3 percent inflation. This applies for the 2025 calendar year only, meaning that the inflation rate used in the school finance calculation for FY 2026-27 is 2.4 percent rather than 2.3 percent.

As a result, the base per pupil amount for FY 2026-27 is $8,900, an increase of $209 (2.4 percent) compared to the prior year. The statewide base is the dollar amount used to calculate a district's foundation funding under the new formula. The per pupil rate for online students and those in the P-TECH extended high school program increases by the same inflation rate, to $10,732, in FY 2026-27. Under HB 26-1357, the per pupil rate for students in the TREP program is set at $7,104 in FY 2026-27.

School Finance Formula Parameters

FY 2026-27

For FY 2026-27, the initial appropriation for school finance discussed above reflects the following formula parameters:

- phasing in 30 percent of the new formula;
- holding districts harmless to FY 2024-25 funding levels;
- utilizing three-year student count averaging in the new formula and five-year averaging in the old formula;
- elimination of the ASCENT program; and
- the formula changes made in SB 26-023 and HB 26-1357, as discussed below.

Cost of Living Factors

The school finance formula includes funding based on a district's cost of living, as determined in a biennial study conducted by Legislative Council Staff (LCS). The most recent study was conducted in 2025, for use in FY 2026-27 and FY 2027-28 funding calculations. The new formula factors calculated based on the study are the first ones that use the HB 24-1448 methodology, in which cost of living factors may increase or decrease.

SB 26-023 delayed the implementation of the new district cost of living factors by one year. As a result, district total program for FY 2026-27 is calculated using the FY 2025-26 cost of living factors.

SB 26-023 also modified deadlines for the cost of living study. Beginning with the 2027 study, the study must be completed by January 1, 2028, and LCS must certify new cost of living factors by January 31, 2028, and every two years thereafter. The Colorado Department of Education must send the new factors to school districts within 14 days of receiving the certified factors from LCS.

TREP Program

HB 26-1357 phased out the TREP extended high school program, which provides funding through the school finance formula for students who remain enrolled in a fifth and sixth year of high school to take postsecondary courses related to a career in teaching. Under the bill, the per pupil rate for TREP students is reduced from $10,721 to $7,104 in FY 2026-27, and the program is repealed beginning in FY 2027-28.

District Hold Harmless Clarification

A school district's FY 2026-27 total program is the greater of their FY 2024-25 total program funding, or the total program calculated by the old formula plus 30 percent of the difference between the new formula and old formula. SB 26-023 specified that for FY 2026-27, if a district's new formula total program is less than its old formula total program, the district receives the greater of the old formula total program or its FY 2024-25 total program.

FY 2027-28

Under current law, the following school finance formula parameters are scheduled to be used for FY 2027-28, unless modified by the state legislature:

- phasing in the new formula at 45 percent;
- holding districts harmless to old formula funding plus one percent;
- utilizing student count smoothing created in SB 26-023 in both the new and old formulas, as discussed below;
- increasing the minimum funded pupil count in the old formula from 50 FTE to 60 FTE to align with the new formula;
- utilizing new cost of living factors based on the study completed in 2025; and
- eliminating the TREP program.

Smoothing

SB 26-023 replaced multi-year student count averaging with a smoothing calculation, to be implemented beginning in a year when the new formula is implemented at least 45 percent, and districts are held harmless to the old formula plus 1 percent. Under current law, those parameters will be met beginning in FY 2027-28.

Under the smoothing calculation, districts will receive funding for the greater of:

- current year enrollment;
- 97 percent of the prior year enrollment; or
- a weighted average of current year enrollment (50 percent), prior year enrollment (30 percent), and enrollment from two years prior (20 percent).

Smoothing is used in both the new and old formulas, and is also applied to charter schools authorized by the Charter School Institute (CSI).

Charter School Distributions

SB 26-023 specified the calculation of total program funding distributions for district charter schools and CSI schools. Distributions are calculated by applying the district phase in schedule to individual charter schools, including applying the old and new formulas and the phase in percentage (30 percent in FY 2026-27) to individual charter schools. The bill specifies how to handle certain factors calculated based on district characteristics.

In addition, the bill created a hold harmless measure for charter schools. For FY 2026-27 only, charter schools receive at least their actual FY 2025-26 funding, plus one percent. Beginning in FY 2027-28 and through the remainder of the phase in period, charter schools receive at least the funding calculated under the old school finance formula, plus one percent. Hold harmless payments may be paid from the SEF.

Administration of Certain Educational Programs

Beginning in FY 2026-27, SB 26-023 made a variety of changes to the administration of certain educational programs, including those offered by boards of cooperative education services (BOCES), contract schools, or part-time programs for homeschool students.

Part-Time Programs for Homeschool Students

Under SB 26-023, a local education provider (LEP; including school districts, charter schools, and BOCES) may offer part-time programs for homeschool students if the programs comply with rules adopted by the State Board of Education (SBE), certain state laws, and all legal requirements for the authorizing LEP. A part-time program for homeschool students must:

- not enroll students who satisfy school attendance requirements through an independent or parochial school;
- not directly or indirectly fund, reimburse, or subsidize a private activity or purchase for a student or their parent or guardian; and
- verify the student's eligibility and make the verification available to CDE upon request.

Program Authorization

LEPs may not operate part-time homeschool programs for students outside their geographic boundaries, except if approved through one of the following mechanisms:

- Beginning in FY 2027-28, the SBE may certify such programs to operate if they meet quality standards, and accountability, transparency, and reporting requirements determined in rule. Certifications are valid for two years and may be renewed.
- A local board of education may authorize an LEP to operate a part-time home school program within their geographic boundaries. This authorization must be obtained from all districts where a part-time program operates, and must utilize a form provided by CDE to certify that the program meets certain requirements.

For FY 2026-27, a program may be provisionally authorized by CDE or through the local approval process if it was in operation in FY 2025-26, certifies that it will enroll no more students in FY 2026-27 than were enrolled in FY 2025-26, and meets certain requirements and standards.

BOCES Programs

Beginning in FY 2026-27, SB 26-023 prohibited a BOCES from operating a school, program, campus, or subprogram outside of the geographic boundaries of its school district members, except through the authorization process for online schools, or as permitted in the bill. Schools and programs authorized by a BOCES are considered public, and BOCES must provide a copy of any agreement that demonstrates current membership or terms of service, upon request of CDE.

Contract Schools

SB 26-023 specified that an authorizer of an online program may contract with an education management provider to operate an online program or school, and clarified that state law does not authorize the creation of a contract school that is a full-time complete educational program, and is offered exclusively by a private entity. If a school district, charter school, or BOCES seeks to enroll students in a contract school, the school must be authorized through current law authorization processes for online schools, innovation schools, or charter schools.

Education management providers also must provide certain information, including performance data, conflicts of interest, and a performance management plan that includes evaluation measures, oversight methods, and compensation structure, to the program authorizer.

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 state funding for these programs in the aggregate increase by at least inflation each year. Table 1 shows the appropriations and year over year funding changes for categorical programs in FY 2026-27.

Table 1
Appropriations for Categorical Programs
FY 2026-27
Dollars in Millions

Categorical Program	FY 2025-26	FY 2026-27	Change	Percent Change
Special Education	$388.7	$400.5	$11.8	3.0%
English Language Proficiency	$35.9	$36.5	$0.7	1.8%
Transportation	$73.0	$74.8	$1.8	2.5%
Vocational Education	$32.7	$32.7	$0.0	0.0%
Gifted & Talented	$16.8	$17.9	$1.1	6.3%
Expelled & At-Risk Student Services	$9.5	$9.5	$0.0	0.0%
Small Attendance Center Aid	$1.6	$1.6	$0.0	0.0%
Comprehensive Health Education	$1.1	$1.1	$0.0	0.0%
Total	**$559.2**	**$574.6**	**$15.4**	**2.7%**

Source: Joint Budget Committee Staff.

Other Changes

Special Education Funding Distribution

SB 26-023 increased the portion of categorical special education funding that is used to reimburse administrative units for the cost of enrolling eligible students in out-of-home placements from $500,000 to $1.0 million. It also modified the definition of eligible students to include those who have an individualized education plan, do not have a parent or guardian authorized to make educational decisions, and are placed by a public agency in an out-of-state residential child care or treatment facility, or in an approved facility school.

Additional Changes

Among other things, SB 26-023 made the following changes to education programs:

- extended indefinitely the ability of rural or small rural school districts experiencing a financial burden caused by the withholding of property taxes due to an unforeseen delay in filing their audit report to qualify for funding from the Contingency Reserve Fund;
- eliminated $3.5 million in supplemental at-risk funding for charter schools in FY 2026-27, a year earlier that the repeal date previously in state law;

- allowed an LEP to request that CDE approve the use of pencil and paper to complete any portion of state assessments administered in third and fourth grades;
- allowed assistant superintendents, vice principals, and assistant principals to work after retirement for up to 110 days without a reduction in their retirement benefits through the Public Employees' Retirement Association; and
- clarified the ability of charter schools to access local school food purchasing and employee wage grants through the Healthy School Meals for All program.