LCS School Finance Update

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Joint Education
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Outline

- How does school finance work in Colorado?
- New School Finance Formula
- FY 2024-25 and FY 2025-26 Budget Outlook
- Balancing General Fund and State Education Fund
- Declining enrollment
- Property tax

How does school finance work in Colorado?

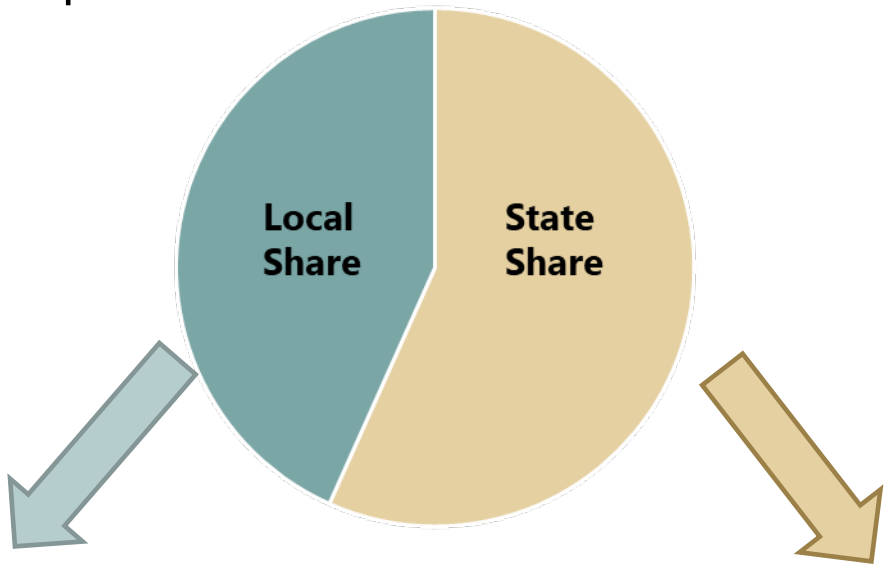
- A **statutory formula** determines funding for each of the state's 178 school districts (total program)

- **Total program** is paid for by:
  - Local Share (local property and specific ownership taxes)
  - State Share (difference between total program and the local share)

- Districts may also receive other local, state and federal funds.

Sources of School Finance Formula Funding

$9.7 billion in FY 2024-25



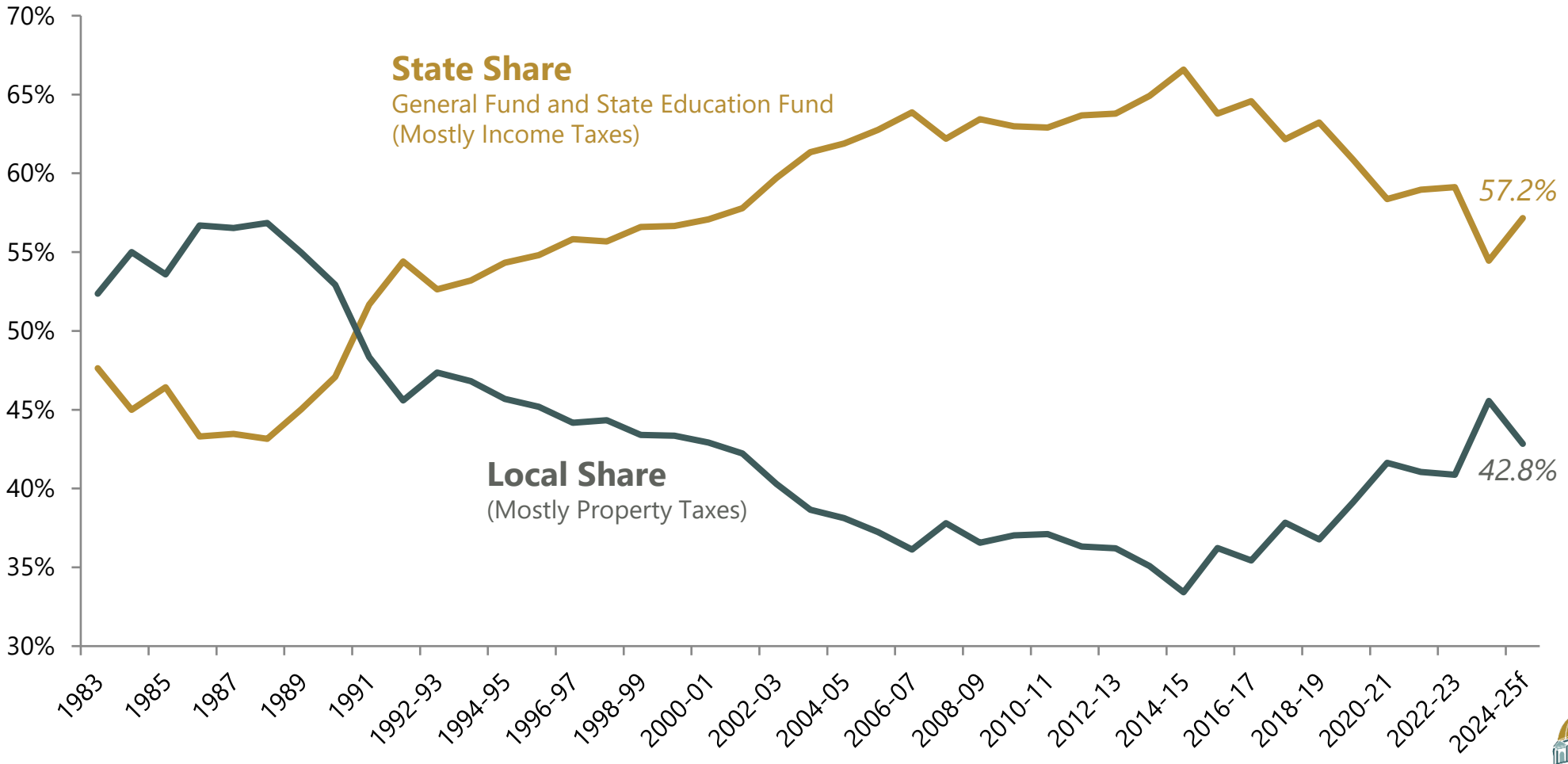
Local Sources: $4.2 billion (43%)

- Property Taxes: $4.0 billion (94%)
- Spec. Ownership Taxes: $242 million (6%)

State Sources: $5.5 billion (57%)

- General Fund: $4.2 billion (77%)
- State Education Fund: $1.2 billion (22%)
- State Public School Fund: $74 million (1%)

History of State and Local Shares



Old Formula

- Established in the Public School Finance Act of 1994
- Multiplicative structure
- Rural funding added for FY 2024-25

Base Per Pupil Funding

- Set by General Assembly
- Must increase annually by at least inflation per Amendment 23

District Preliminary Per Pupil Funding

- Base per pupil is adjusted by district factors:
  - cost of living
  - personnel costs,
  - enrollment size

District Preliminary Funding

- District preliminary per pupil funding **X** District funded pupil count

District Total Program Funding

- Additional $ for student factors:
  - At-risk students
  - ELL students
  - Online & extended high school
  - Rural districts

HB24-1448 New School Finance Formula

- Begins in FY 2025-26 and phased in over six years, through FY 2030-31
- Increases total program by about $98 million in FY 2025-26
- Additive, rather than multiplicative, and modifies individual components
- Adds special education and locale funding

Funded Pupil Count

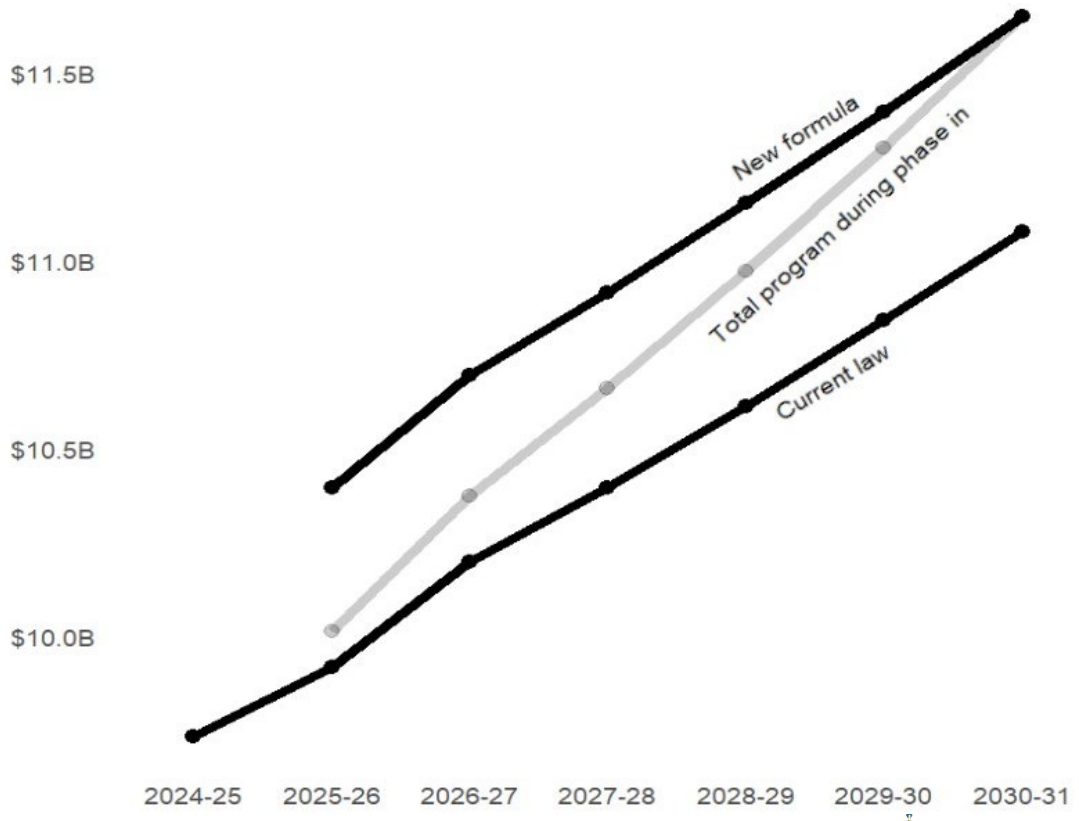
- Increased the minimum funded pupil count from 50 FTE to 60 FTE

- Modified the averaging provision to be the greater of:
  - the current year; or
  - average of current year and prior one, two, or three years

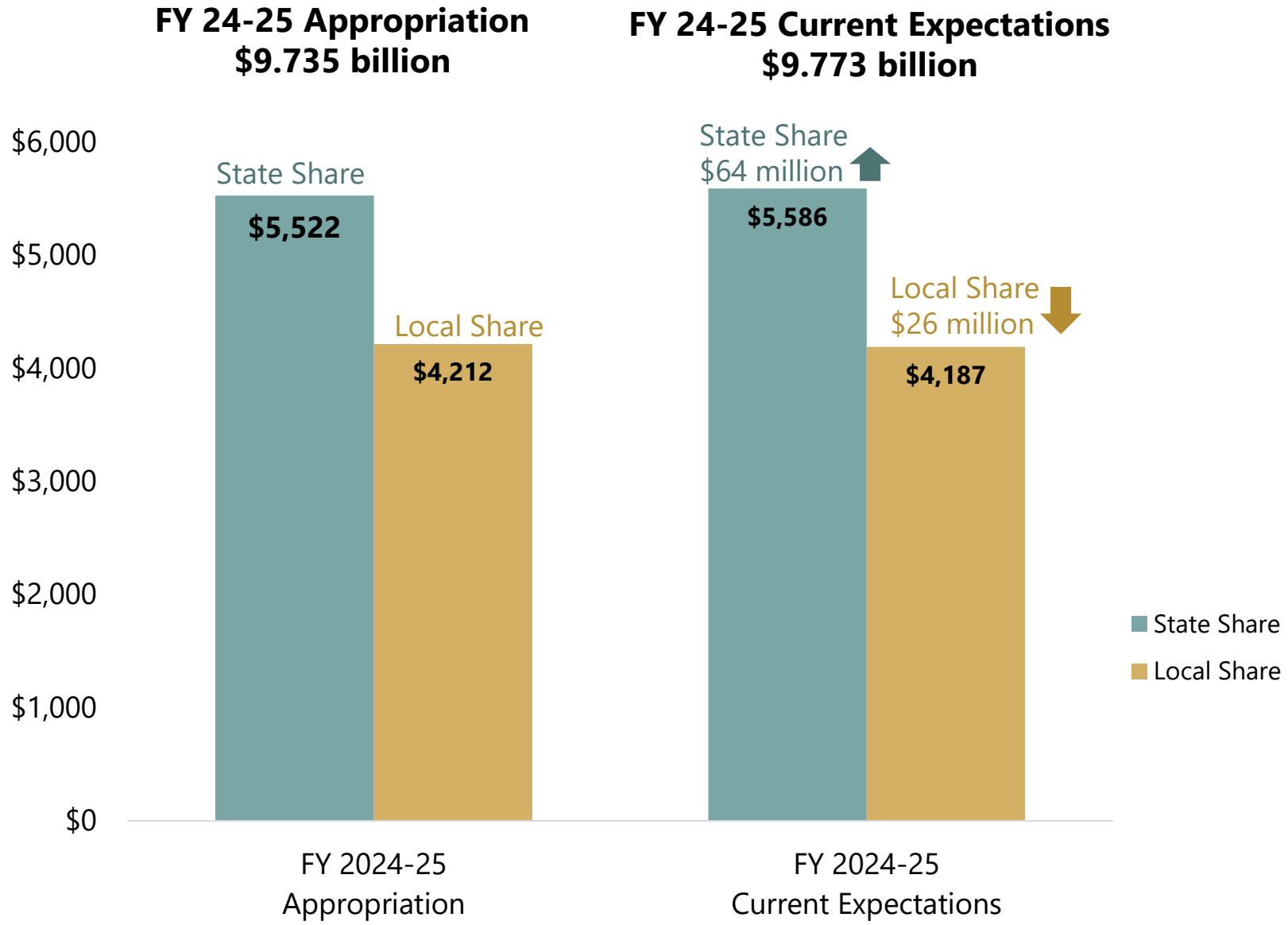
Phase In & Hold Harmless

Districts receive the greater of:

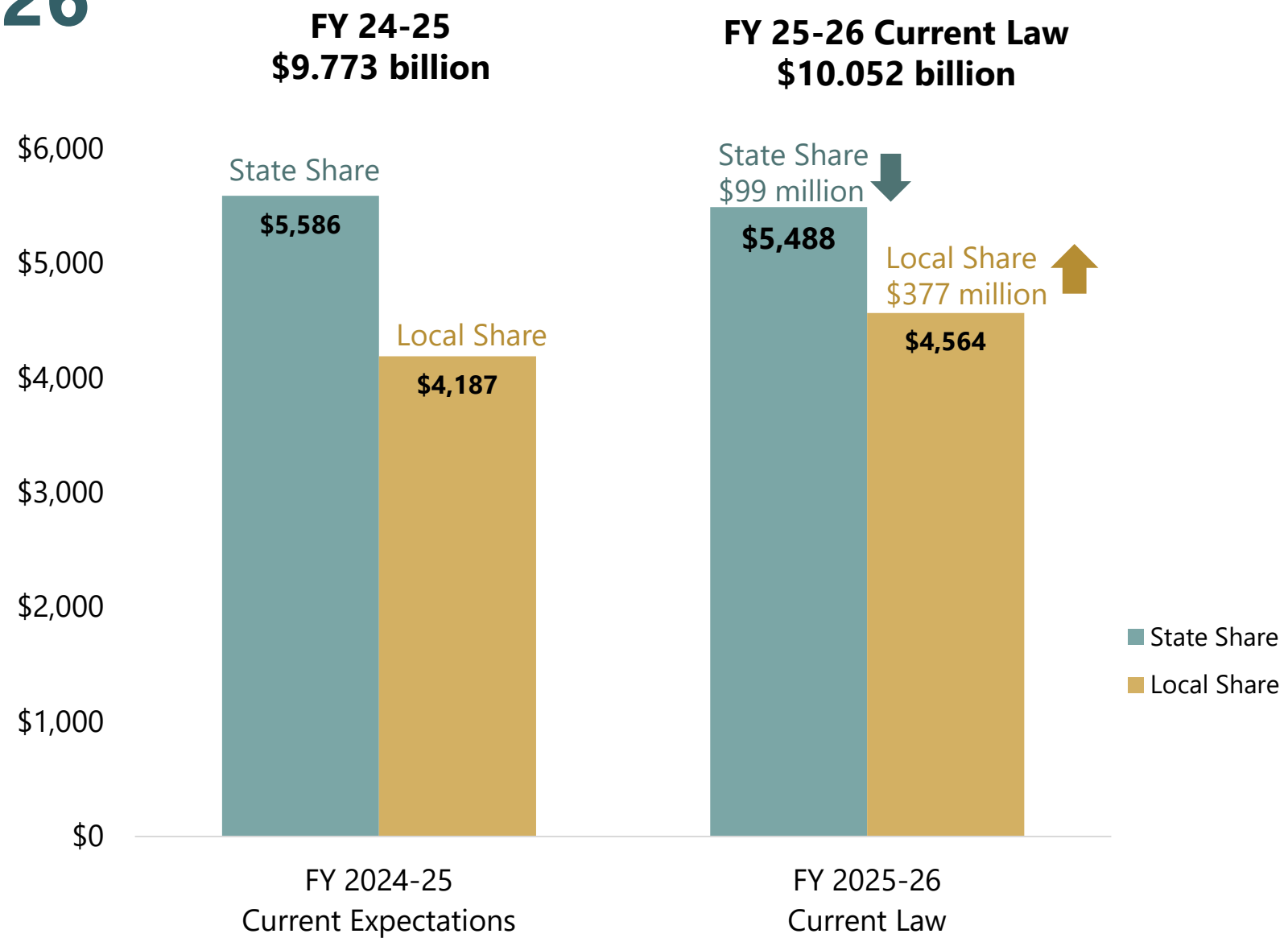
- total program under the old formula **plus 0.5 percent**; or
- total program under the old formula, **plus a portion of the difference between the old and new formulas**.
  - 18% of the difference in FY 2025-26



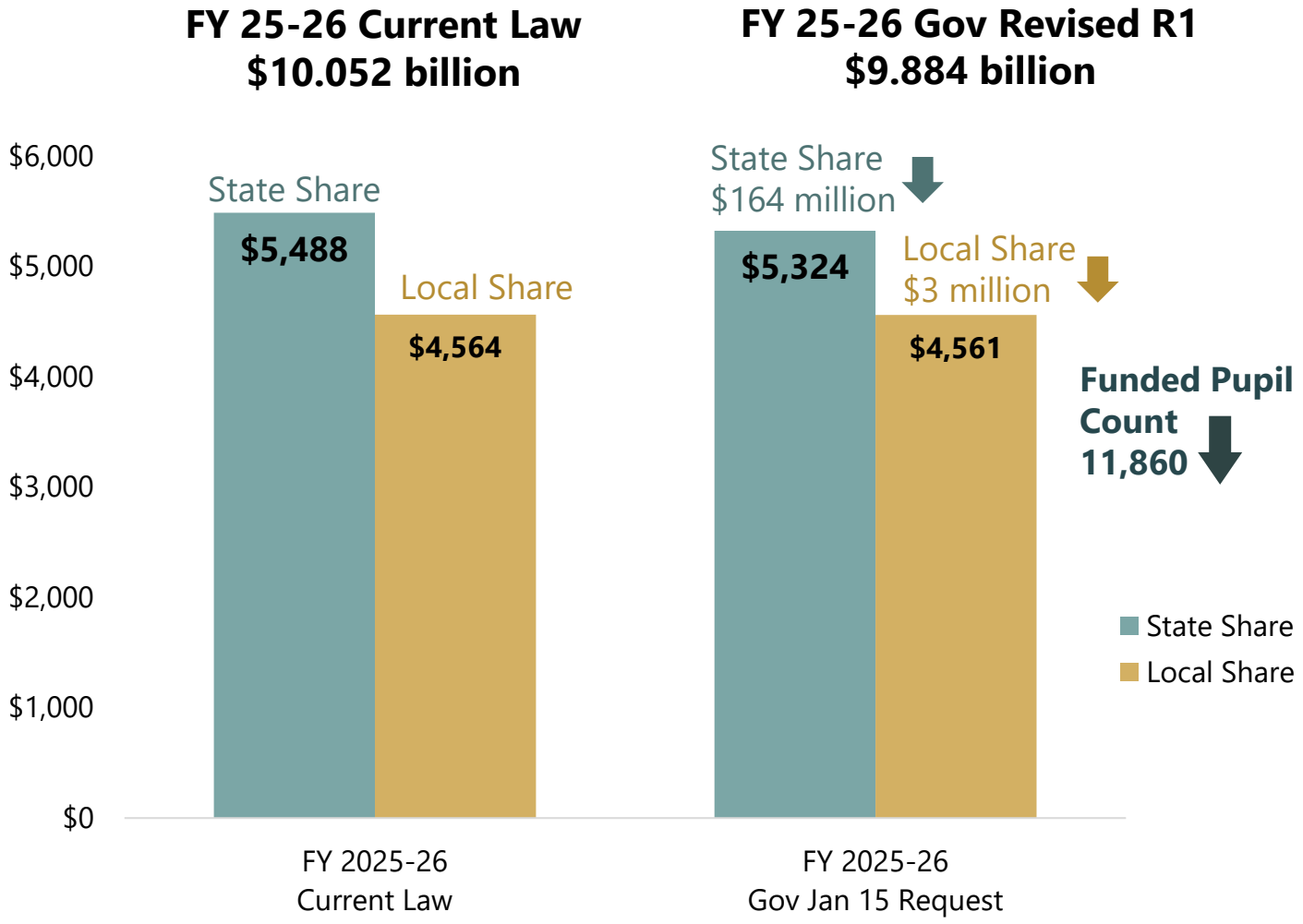
FY 2024-25


FY 24-25 Appropriation
$9.735 billion
FY 24-25 Current Expectations
$9.773 billion
$6,000
$5,000
$4,000
$3,000
$2,000
$1,000
$0
State Share
$5,522
Local Share
$4,212
State Share
$64 million
$5,586
Local Share
$26 million
$4,187
State Share
Local Share
FY 2024-25
Appropriation
FY 2024-25
Current Expectations

FY 2025-26


FY 24-25
$9.773 billion
FY 25-26 Current Law
$10.052 billion
$6,000
$5,000
$4,000
$3,000
$2,000
$1,000
$0
State Share
$5,586
Local Share
$4,187
State Share
$99 million
$5,488
Local Share
$377 million
$4,564
State Share
Local Share
FY 2024-25
Current Expectations
FY 2025-26
Current Law

Governor's Revised Budget Request R1



Proposed Changes:

- Eliminates averaging
- Hold harmless to old formula (instead of old formula +0.5%)

Balancing General Fund and State Education Fund

Historically, the General Fund contribution to school finance increased each year.

In recent years:

- large SEF balance
- General Fund contribution has remained constant, while the SEF contribution has increased

Currently:

- Pressure on SEF (state share increases, other education-related cost increases)
- **For the SEF to maintain a positive balance through a five year forecast period, the General Fund contribution must increase by about 4.5%**

Enrollment Declines

- **Statewide, enrollment has been declining since prior to COVID**
  - Low birth rates and housing affordability
  - In FY 2024-25, enrollment remained relatively flat
  - Enrollment declines are expected to continue over the next few years

- **Impact of Averaging:**
  - Phantom student FTE: 17,750 in FY 24-25, 11,860 in FY 25-26
  - FY 25-26:
    - 40 districts expected to use their current year count
    - 138 expected to utilize some form of averaging

Property Tax Changes

- Reductions in property tax revenue increase the state share
- SB24-233 and HB24B-1001
  - $380 million increase in state share in FY 24-25
  - $158 million increase in state share in FY 25-26
  - *Factored into all FY24 and FY 25 estimates*
- School district residential assessment rate, beginning in 2025
- School district property tax limit, beginning in 2025

Questions?

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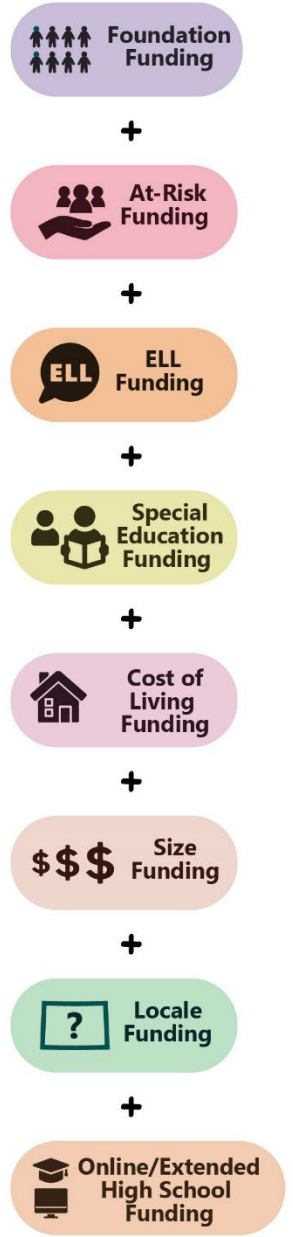
https://leg.colorado.gov/agencies/legislative-council-staff/school-finance

What changes under HB24-1448?

- Structure – additive, not multiplicative
- Most factors calculated off the base per pupil
- Set a maximum cost of living factor
- Limits size factor to small districts
- Modifies at-risk and ELL factor
- Two new factors: special education and locale



New Formula – Pause Provisions

If any of these conditions are met, implementation is paused during phase in:

- Local share change < inflation minus 2% (property tax assessment year)
- Local share decreases by at least 2% (property tax non-assessment year)
- Income tax diversion to State Education Fund projected to decrease by at least 5% in current or next budget year

- Currently, none of these are expected to be triggered, but additional clarification on the SEF transfer may be needed.