

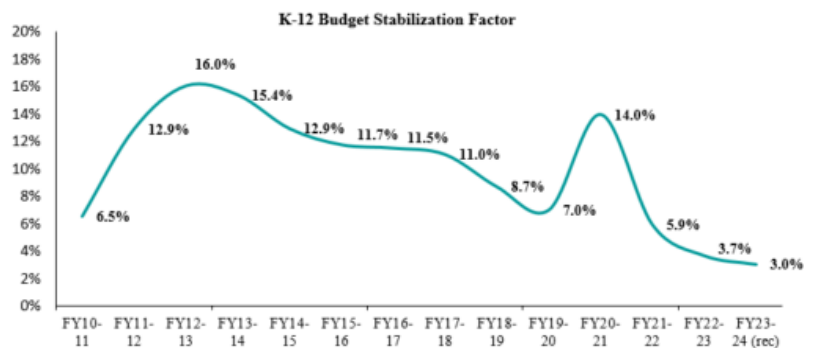


Department Priority: R-01
Request Detail: State Share of Total Program Increase

Summary of Funding Change for FY 2023-24			
		Incremental Change	
	FY 2022-23 Appropriation	FY 2023-24 Request	FY 2024-25 Request
Total Funds	\$5,065,604,795	\$473,489,816	\$669,697,496
FTE	0.0	0.0	0.0
General Fund	\$4,237,853,668	\$150,000,000	\$323,759,819
Cash Funds	\$827,751,127	\$323,489,816	\$345,937,677
Reappropriated Funds	\$0	\$0	\$0
Federal Funds	\$0	\$0	\$0

Summary of Request

The Governor’s Office requests an increase of \$473,489,816 total funds for the State Share of Total Program funding for K-12 public schools FY 2023-24, including funding to buy down the Budget Stabilization Factor (BSF) to 3.0 percent. Funding in the State Education Fund (SEF) will increase by \$149,708,557, alongside an increase of \$173,781,259 from the Public School Fund. In addition to the FY 2023-24 Total Program request, the Governor’s Office also requests an additional BSF buydown to 2.5 percent in FY 2024-25. The request represents a 9.0 and 5.0 percent increase in per pupil funding in FY 2023-24 and FY 2024-25 respectively and preserves a \$140.0 million fund balance in the SEF at the end of FY 2024-25. This request increases per pupil funding by \$861 in FY 2023-24 and will require statutory changes to the School Finance Act.



Requires Legislation	Evidence Level	Impacts Another Department?	Statutory Authority
Yes	Evidence-Informed, Step 4	No	22-55-106 (1) (b), C.R.S.

Current Program

Colorado public schools receive funding from a variety of sources. However, most revenues to Colorado’s 178 school districts and Charter School Institute schools (hereafter, both are referred to as districts) are provided through the Public School Finance Act of 1994 (as amended). The Public School Finance Act establishes a formula to determine the amount of state and local funding for each district. The term “Total Program” is used to describe the total amount of funding each district receives under the School Finance Act. Total Program for a district is calculated by the number of funded pupils in the district multiplied by a statewide base per-pupil amount. To account for different district characteristics, a district’s base per-pupil amount of funding may be adjusted for various factors including: (a) cost of living, (b) personnel costs, and (c) enrollment size. The School Finance Act formula also adjusts a district’s funding to compensate for the presence of at-risk pupils (including Free or Reduced Price lunch and English Language Learners), pupils enrolled in multi-district online schools, pupils enrolled in grades thirteen and fourteen in Pathways in Technology Early College High School included in the district extended high school pupil enrollment count, and the Accelerating Students through Concurrent Enrollment program slots.

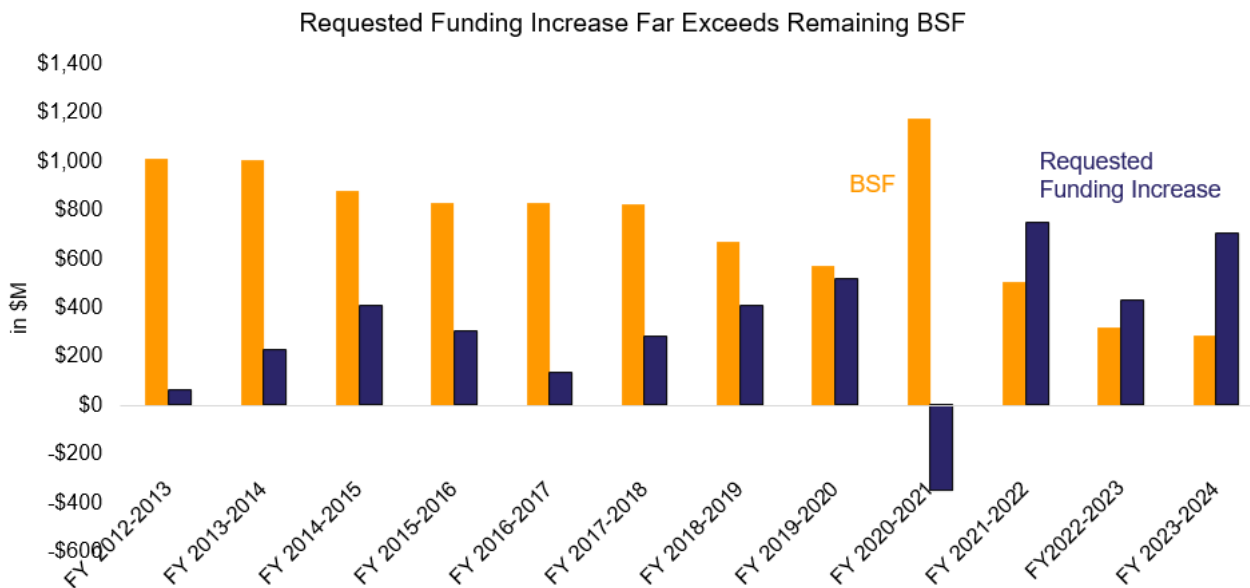
Although the General Assembly sets the statewide base per-pupil amount annually, Article IX, Section 17, of the Colorado Constitution, commonly referred to as Amendment 23, requires that at a minimum, the General Assembly increase the base per-pupil amount each year by the rate of inflation. Beginning in FY 2010-11, the School Finance Act began reducing the Total Program amount proportionately across most districts by applying a new calculation called the BSF, formerly the negative factor. In FY 2022-23, the BSF reduced Total Program by approximately \$321 million (3.7%) statewide.

Problem or Opportunity

Without changing the BSF, the current high inflationary environment dictates that Total Program obligations should increase significantly. Though the latest expectations are for a drop of 0.6 percent in pupil count next fiscal year, local inflation is expected to be 8.3 percent during 2022, which is used in the school finance calculation for FY 2023-24. Therefore, without any change to the BSF, overall funding would already increase

by 7.7 percent or approximately \$668.8 million. However, the Governor’s office sees continued commitment to buying down the BSF as a priority. Given the already large increases in funding as a result of the inflationary pressures, this request lowers the BSF more slowly during FY 2023-24 and FY 2024-25 when the local inflation is expected to be the first and third highest on record.

Historically, the size of the BSF has been larger than the increase in school funding. Below shows the last 10 years of Total Program increases as well as the size of the BSF, with that increase being smaller than the BSF every year up through FY 2020-21, when the pandemic hit. In FY 2021-22, the funding increase was larger than the BSF as the factor was driven down to \$503 million from \$1,174 million. The ratio of funding over the BSF remained above one as the BSF was brought down further in FY 2022-23, from 5.9 to 3.7 percent. However, the request in FY 2023-24 represents an even higher share of spending relative to the BSF than seen in recent history, with requested funding 2.5 times larger than the existing BSF. This is a result of the commitment to buy down the BSF in recent years, as well as the large increase in spending as a result of high inflation.



Proposed Solution

The Governor’s Office requests a Total Program increase of \$703.8 million total funds in FY 2023-24. This increase consists of an \$473.5 million increase to the State Share and an \$230.3 million increase to local share. The estimates in this request assume total funded pupil count will decrease by 5,295 pupils (-0.6%) and an inflationary factor of 8.3% based on the Office of State Planning and Budgeting (OSP) September 2022 Economic Forecast. In FY 2023-24, the Total Program request reduces the BSF by \$35 million to 3.0 percent and maintains a projected ending fund balance in the SEF of \$752.5 million. In FY 2024-25, the Governor’s Office requests a further BSF buydown of \$37 million to 2.5 percent.

For FY 2023-24, the State Share appropriations for Total Program from these fund sources will change as follows:

- SEF appropriations for Total Program will increase by \$149.7 million from \$714.8 million in FY 2022-23 to \$864.5 million in FY 2023-24. Based on the OSPB September 2022 Economic Forecast and the SEF appropriations contained in the FY 2023-24 budget request, the SEF is forecasted to have a FY 2023-24 ending fund balance of \$752.5 million.
- State Public School Fund appropriations will increase by \$173.8 million from \$112.9 million in FY 2022-23 to \$286.7 million in FY 2023-24. The request reflects the available revenues in the State Public School Fund for Total Program. The available revenues in the State Public School Fund includes transfers of \$200 million as a result of S.B. 22-238 and \$30.3 million from marijuana sales tax revenues pursuant to Section 39-28.8-203 (1.5) (B), C.R.S., as forecasted by the OSPB September 2022 Economic Forecast.
- General Fund appropriations will increase by \$150.0 million from \$4.24 billion in FY 2022-23 to \$4.39 billion in FY 2023-24.

The Governor's Office notes that these continued BSF buydowns and moderate GF increases do result in lowering the SEF ending balance to \$140 million by FY 2024-25. That rate of a buydown will reflect a greater dependence on General Fund expenditures in FY 2025-26, once the SEF expenditures can only grow at the pace of revenues. Therefore, if the local share of Total Program comes in above the assumptions described in the relevant section below, the Governor's Office requests that the freed up General Fund obligations for State Share be used to smooth out general fund contributions more evenly across the next three fiscal years. One can find a further analysis of this issue in the School Finance Appendix of the budget letter.

The request ensures districts will receive the funding necessary for increases in student growth and inflation in FY 2023-24. Also, as a percent of Total Program, the BSF will decrease from 3.7% to 3.0%. Overall, the State Share of Total Program funding will increase by 8.4% and the request preserves a \$752.5 million fund balance in the SEF at the end of FY 2023-24. In FY 2024-25, an additional \$37 million in BSF buydown is requested to get the BSF to 2.5 percent. The SEF balance is intended to finance the new lower BSF in FY 2023-24 and FY 2024-25 while also supporting a transition back to an \$140M SEF ending balance during a high inflationary environment. These requests result in increased per pupil funding of \$861 and \$525 in FY 2023-24 and FY 2024-25.

Evidence-Continuum

Specifically, this State Share of Total Program request will increase per pupil funding by \$861 in FY 2023-24, an 9.0% increase in per pupil funding over the prior year. Recent research has demonstrated a connection between increased per pupil funding and student outcomes. One analysis of the long-term effects of school finance reforms across multiple states, for example, found that increasing per-pupil spending by 10% in all 12 school-age years increases the probability of high school graduation by 7 percentage points for all students, and by roughly 10

percentage points for low-income children.¹ Researchers also observed positive effects on adult wages, with a 9.6% increase in adult hourly wages, and a substantial decrease in adult poverty rates resulting from this size investment. States that have enacted school finance reforms that reduce inequality in K-12 spending between rich and poor districts and those that invested additional money for students in poverty, English learners, and those identified for special education have seen the greatest reduction in disparities between student performance.^{2,3,4} As a result of the multiple, longitudinal evaluations of per pupil funding and student outcomes, this request falls as a Step 4 on the State’s evidence continuum.

Theory of Change	Higher per pupil funding leads to improved student outcomes.		
Program Objective	To provide a better quality education for all Colorado students.		
Outputs Being Measured	Math and reading scores from the Colorado Measures of Academic Success, college entrance exam scores, statewide six-year graduation rate, and statewide matriculation rate.		
Outcomes Being Measured	Academic achievement, academic growth, academic opportunity and achievement gaps, and postsecondary and workforce readiness.		
Cost/Benefit Ratio	N/A		
Evaluations	Pre-Post	Quasi-Experimental Design	Randomized Control Trial
Results of Evaluation	Jackson, C. K., Johnson, R. C., & Persico, C. (2015) and others cited on p. 4	Jackson, C. K., Johnson, R. C., & Persico, C. (2015) and others cited on p. 4	N/A
Continuum Level	Step 4: Evidence Informed Program		

¹ Jackson, C. K., Johnson, R. C., & Persico, C. (2015). The effects of school spending on educational and economic outcomes: Evidence from school finance reforms. (NBER working paper #20847). Cambridge, MA: National Bureau of Economic Research.
² Nguyen-Hoang, P., & Yinger, J. (2014). Education finance reform, local behavior, and student performance in Massachusetts. *Journal of Education Finance* 39, 297-322.
³ Downes, T. A., Zabel, J., & Ansel, D. (2009). Incomplete grade: Massachusetts education reform at 15. Boston, MA: MassINC.
⁴ Guryan, J. (2001). Does money matter? Regression-discontinuity estimates from education finance reform in Massachusetts. (NBER working paper #8269). Cambridge, MA: National Bureau of Economic Research.

Promoting Equitable Outcomes

Historically underserved population or group	Description of existing equity gap(s)	How does the request affect the gaps? (quantify wherever possible).
N/A	N/A	After analysis of the expected outcomes of this decision item, the Governor’s Office believes that this budget request is equity-neutral.

Assumptions and Calculations

Assumptions and Calculations Summary Table					
	FY 2022-23 Appropriation	FY 2023-24 Request	Change	FY 2024-25 Request	Ongoing Costs past FY 2024-25?
Total Funds	\$5,065,604,795	\$5,539,094,611	\$473,489,816	\$5,735,302,291	\$5,735,302,291
General Fund	\$4,237,853,668	\$4,387,853,668	\$150,000,000	\$4,561,613,487	\$4,561,613,487
Cash Fund	\$827,751,127	\$1,151,240,943	\$323,489,816	\$1,173,688,804	\$1,173,688,804
Reappropriated Funds	\$0	\$0	\$0	\$0	\$0

In FY 2023-24, pupil enrollment growth and inflation result in a \$668.8 million increase to Total Program funding. Reducing the BSF to 3.0 percent increases Total Program to a total request of \$703.8 million. Of this amount, \$473.5 million is State Share (appropriated) and \$230.3 million is local share (non-appropriated), as shown in Table 1.

Detailed Assumptions and Calculations for Total Program

The details for these calculations are summarized in Appendix A. Appendix B shows the OSPB estimates for the SEF balance at the end of FY 2022-23 with these recommendations. Appendix C shows the OSPB estimates for the Public School Fund balance at the end of FY 2022-23 with these recommendations.

Table 1: Total Program Calculation of State and Local Share	FY 2022-23 Current Appropriation	Change (FY 2023-24 Request Minus FY 2022-23)
State Share (appropriated)	\$5,065,604,795	\$473,489,816
Specific Ownership Tax	\$224,578,865	\$0
Local Property Tax	\$3,132,082,334	\$230,289,229
TOTAL	\$8,422,265,995	\$703,779,046

Appendix A Budget Request Summary

Colorado Department of Education Public School Finance Act of 1994 FY 2023-24 November 2022 Budget Request			
K-12 Total Program	FY 2022-23 Appropriation	FY 2023-24 Request	Change
At-risk Funded Count	326,343	326,343	-
Funded Pupil Count	881,053	875,758	(5,295)
Average Per Pupil Funding Before BSF	\$9,924	\$10,748	\$824
Base Per Pupil Funding	\$7,478	\$8,099	\$621
Total Program Funding Before Application of Budget Stabilization Factor	\$8,743,506,663	\$9,412,312,290	\$668,805,628
Total Program Funding Before Application of Budget Stabilization Factor	\$8,743,506,663	\$9,412,312,290	\$668,805,628
Budget Stabilization Factor (minus)	<u>-\$321,267,250</u>	<u>-\$286,267,250</u>	<u>\$35,000,000</u>
Total Revised Total Program Funding	\$8,422,263,179	\$9,126,045,040	\$703,781,862
Budget Stabilization Factor as a Percent of Total Program	3.7%	3.0%	-0.6%
Funding Sources of Local Share			
Property Taxes	\$3,132,082,334	\$3,362,371,564	\$230,289,229
Specific Ownership Taxes	\$224,578,865	\$224,578,865	\$0
TOTAL LOCAL SHARE	\$3,356,661,200	\$3,586,950,429	\$230,289,229
Funding Sources of State Share			
State Education Fund	\$714,820,264	\$864,528,822	\$149,708,557
State Public School Fund	\$112,930,863	\$286,712,122	\$173,781,259
General Fund	\$4,237,853,668	\$4,387,853,668	\$150,000,000
TOTAL STATE SHARE	\$5,065,604,795	\$5,539,094,611	\$473,489,816
Average Per Pupil Funding After Negative Factor	\$9,559	\$10,421	\$861

Student Enrollment

- The request estimates that funded pupils will decrease from 881,053 in FY 2022-23 to 875,758 in FY 2023-24. This is a decrease of 5,295 pupils (-0.6%). These estimates are in line with the most recent estimates provided by CDE. After FY 2023-24, for which there is no LCS forecast yet, OSPB assumes a more moderate drop of -0.4%. This outyear decline is based on demographic differences related to slowing birth rates, as larger populations of 12th graders are replaced with smaller cohorts of kindergarteners.
 - This pupil count includes the preschool count so per H.B. 22-1295, \$135 million will be transferred to the Preschool Programs Cash Fund to support Universal Preschool which the Governor's Office requests come from the General Fund.
- Additionally, the request assumes no change in the at-risk pupil count from FY 2022-23 appropriated figure. While this is in line with recent estimates provided by CDE, OSPB acknowledges that a great deal of uncertainty exists around the impacts of H.B. 22-1202 on the mid-year adjustment to the at-risk count.

Per Pupil Funding

- The request uses an inflation factor of 8.3% based on the OSPB September 2022 Economic Forecast.
- The inflation rate will increase base per pupil funding by \$621 from \$7,478 in FY 2022-23 to \$8,099.
- After all school finance formula factors are calculated (including the reduction to the BSF), the statewide average per pupil revenue will increase by \$861 from \$9,559 in FY

2022-23 to \$10,421 in FY 2023-24. This is an increase of 9.0% in the average cost per pupil after the BSF statewide.

Local Taxes

- The request estimates that local property taxes increase to \$3.357 billion, based on projections developed by OSPB. Considerations include fiscal impacts from S.B. 22-238 and a \$60 million buffer of total local share relative to the December 2021 LCS forecast to account for the possibility of a slowing housing market in the spring and early summer of 2022 as a result of tightening monetary policy. A similar \$60 million buffer is also included into FY 2024-25 property taxes after also accounting for the fiscal impacts of S.B. 22-238.
- The request estimates that Specific Ownership Taxes will total \$224.6 million in FY 2023-24.

Budget Stabilization Factor

- The total BSF dollar amount in FY 2023-24 will be \$286.3 million compared to \$321.3 million in FY 2022-23, which represents a \$35 million reduction to the BSF. In FY 2024-25, the BSF will be \$249.3 million, a \$37 million reduction to the BSF.
- As a percent of Total Program, the BSF will decrease from 3.7% in FY 2022-23 to 3.0% in FY 2023-24, the lowest BSF as a percent of Total Program since the first year the factor was created. Additionally, the BSF would fall to 2.5% in FY 2024-25.

Appendix B State Education Fund Balance

Office of State Planning and Budgeting Estimated State Education Fund Balance Projected Fiscal Year 2023-24 Funding Summary November 2022 Budget Request			
	FY 2022-23 Estimate	FY 2023-24 Request	Change
Beginning Balance	\$955,907,840	\$1,156,823,138	\$200,915,298
Estimated Revenues (OSPB Forecast)			
Amendment 23 Revenues	\$876,156,028	\$885,439,552	\$9,283,524
Additional General Fund revenues directed to SEF	\$130,862,950	\$0	-\$130,862,950
Additional Federal Fund revenues directed to SEF	\$0	\$0	\$0
Total revenue directed to SEF	\$1,007,018,978	\$885,439,552	-\$121,579,426
Other transfers into SEF	\$290,000,000	\$0	-\$290,000,000
Other income and interest income	\$10,070,190	\$8,854,396	-\$1,215,794
Total Funds to SEF	\$300,070,190	\$8,854,396	-\$291,215,794
TOTAL Forecasted Available SEF Funds	\$2,262,997,008	\$2,051,117,086	-\$211,879,922
Estimated Expenditures (Request)			
Categorical programs	\$278,047,372	\$314,680,488	\$36,633,116
Various other expenditures	\$113,306,234	\$119,372,151	\$6,065,917
Liabilities and Statutory Transfers	\$0	\$0	\$0
Total SEF expenditures for purposes other than Total Program	\$391,353,606	\$434,052,639	\$42,699,033
SEF expenditures for Total Program	\$714,820,264	\$864,528,822	\$149,708,557
TOTAL Forecasted SEF Expenditures	\$1,106,173,870	\$1,298,581,461	\$192,407,591
Projected Ending Fund Balance	\$1,156,823,138	\$752,535,625	(\$404,287,513)

Appendix C Public School Fund Balance

Office of State Planning and Budgeting Estimated Public School Fund Balance Fiscal Year 2022-23 Budget Amendment			
	FY 2022-23 Estimated	FY 2023-24 Request	Change
Beginning Balance	\$57,615,332	\$239,059,235	\$181,443,903
Estimated Revenues (OSPB Forecast)			
FML revenues	\$66,250,920	\$42,964,602	-\$23,286,319
Other Revenue (Audit Recoveries, At-Risk Transfer, Marijuana Funding)	\$28,745,207	\$30,309,646	\$1,564,439
Total revenue directed to PSF	\$94,996,127	\$73,274,248	-\$21,721,879
Permanent fund transfer	\$21,000,000	\$21,000,000	\$0
General Fund or other transfer	\$200,000,000	\$0	-\$200,000,000
Other Diversions	\$0	\$0	\$0
Total Funds to PSF	\$221,000,000	\$21,000,000	-\$200,000,000
TOTAL Forecasted Available PSF Revenue	\$373,611,459	\$333,333,482	-\$40,277,976
Estimated Expenditures (Request)			
Expenditures for other than total program	\$13,787,002	\$13,787,002	\$0
Liabilities and Statutory Transfers	\$7,834,359	\$7,834,359	\$0
Total PSF expenditures for purposes other than total program	\$21,621,361	\$21,621,361	\$0
PSF expenditures for total program	\$112,930,863	\$286,712,122	\$173,781,259
TOTAL Forecasted PSF Expenditures	\$134,552,224	\$308,333,483	\$173,781,259
Projected Ending Fund Balance	\$239,059,235	\$25,000,000	(\$214,059,235)