

MEMORANDUM



JOINT BUDGET COMMITTEE

TO Joint Budget Committee Members
 FROM Craig Harper, JBC Staff (303-866-3481)
 DATE May 12, 2020
 SUBJECT Staff Budget Balancing Comeback - FY 2020-21 School Finance Recommendations

The Committee has not yet taken action on appropriations for the State Share of Districts' Total Program Funding line item for FY 2020-21. Staff is returning to the Committee with revised recommendations for appropriations to be included in the FY 2020-21 Long Bill, including adjustments for FY 2019-20 and the appropriation for FY 2020-21 based on the Legislative Council Staff May 2020 Revenue Forecast Update (May 2020 forecast update). Please note that selectin of the Office of State Planning and Budgeting (OSPB) revenue estimates for balancing purposes would likely require adjustments to these recommendations.

As the Committee is aware, the revenue outlook has deteriorated significantly since the March 2020 revenue forecasts. Nearly all of the major sources of *state* revenue supporting school finance have seen declines in the May 2020 forecast update, including the General Fund, income taxes supporting the State Education Fund, and federal mineral lease (FML) revenues credited to the State Public School Fund. While anticipated revenues are decreasing, the estimated cost of school finance under the formula has increased because of increasing estimates of at-risk student counts driven by the economic downturn. *All* of these factors will place additional pressure on the General Fund, at the same time that General Fund revenues are declining.

Table 1 (below) shows changes in anticipated deposits of income tax revenues to the State Education Fund and FML revenues for the State Public School Fund from the Legislative Council Staff December 2019 revenue forecast through the May 2020 forecast update. The declines in anticipated revenues (a total of \$96.3 million for FY 2019-20 and \$210.1 million for FY 2020-21) directly reduce the amount available for school finance and will increase the pressure on the General Fund.

TABLE 1: CHANGE IN ANTICIPATED STATE EDUCATION FUND AND FML REVENUES (BY LEGISLATIVE COUNCIL STAFF REVENUE FORECAST)				
	DECEMBER 2019 FORECAST	MARCH 2020 FORECAST	MAY 2020 FORECAST UPDATE	CHANGE SINCE DECEMBER 2019 FORECAST
FY 2019-20 Revenues				
State Education Fund Deposits (income tax)	\$701,400,000	\$680,100,000	\$629,000,000	(\$72,400,000)
FML Deposits to State Public School Fund	52,111,439	38,979,665	28,229,827	(23,881,612)
Total	\$753,511,439	\$719,079,665	\$657,229,827	(\$96,281,612)
<i>Projected State Education Fund Ending Balance</i>	<i>\$202,664,145</i>	<i>\$181,030,011</i>	<i>\$113,000,744</i>	<i>(\$89,663,401)</i>
FY 2020-21 Revenues				
State Education Fund Deposits (income tax)	\$731,300,000	\$687,800,000	\$544,500,000	(\$186,800,000)
FML Deposits to State Public School Fund	54,299,145	43,354,743	31,016,665	(23,282,480)
Total	\$785,599,145	\$731,154,743	\$575,516,665	(\$210,082,480)
<i>Projected State Education Fund Ending Balance</i>	<i>\$150,000,000</i>	<i>\$150,000,000</i>	<i>\$100,000,000</i>	<i>(\$50,000,000)</i>

As shown in Table 1, the projected ending balances for the State Education Fund have also decreased significantly over that period. Based on the December 2019 LCS Revenue Forecast, staff had projected State Education Fund ending balances of \$202.7 million in FY 2019-20 and a recommended \$150.0 million in FY 2020-21. Based on the May 2020 forecast update and the recommendations discussed below, staff now anticipates balances of \$113.0 million at the end of FY 2019-20 (a decrease of \$89.7 million below the December estimate) and a recommended \$100.0 million at the end of FY 2020-21 (a decrease of \$50.0 million below the level anticipated in December 2019 and March 2020).

With that background, the remainder of this document includes the following sections:

- A revised recommendation for total program funding *for FY 2019-20* driven primarily by changes in estimated federal mineral lease (FML) revenues in the current year. The recommendation includes an increase of \$17.8 million cash funds from the State Education Fund for FY 2019-20 to offset a reduction of that amount from the State Public School Fund.
- Revised recommendations for total program funding *in the FY 2020-21 Long Bill*. The recommendations incorporate changes to both total program funding (including both new cost of living factors adopted for FY 2020-21 and increases in the anticipated count of at-risk students) and revenues anticipated under the May 2020 forecast update. After accounting for those changes, maintaining a constant budget stabilization factor requires an increase of \$156.7 million in total state funding, including an increase of \$326.6 million General Fund above the FY 2019-20 appropriation.

FY 2019-20 LONG BILL SUPPLEMENTAL (REPLACES MARCH 16, 2020 JBC STAFF REC.)

On March 16, 2020, staff presented a total program recommendation based on the March 2020 Legislative Council Staff Revenue Forecast. Accounting for a decline in anticipated federal mineral lease (FML) revenues in FY 2019-20, the recommendation included a reduction of \$7.0 million cash funds from the State Public School Fund and an offsetting increase from the General Fund. The Committee did not take action at that time.

As shown in Table 1 above, anticipated FML revenues have declined further since March. The staff recommendation targets an ending balance of \$29.5 million in the State Public School Fund for FY 2019-20 (including \$24.5 million in anticipated FY 2019-20 marijuana sales tax revenues and a \$5.0 million “buffer” against additional potential forecast error). To maintain that balance, **staff recommends reducing the FY 2019-20 appropriation from the State Public School Fund by \$17,797,266 and offsetting that reduction with an identical increase from the State Education Fund (see Table 2 on the following page)**. In a change from the March 16, 2020, school finance discussion, staff is now recommending increasing the appropriation from the State Education Fund to offset that reduction rather than the General Fund.

Staff notes that the recommendation will reduce the ending balance of the State Education Fund at the end of FY 2019-20, directly reducing the amount available for school finance in FY 2020-21. However, given the General Fund challenges facing the State in FY 2019-20, staff recommends making the necessary appropriation from the State Education Fund.

Table 2 (on the following page) reflects the current FY 2019-20 appropriation (as adjusted by H.B. 20-1260), as well as the recommended adjustments and final appropriation.

TABLE 2: FY 2019-20 TOTAL PROGRAM FUNDING LONG BILL SUPPLEMENTAL			
	CURRENT FY 2019-20 APPROPRIATION (INCLUDING H.B. 20-1260)	STAFF RECOMMENDED ADJUSTMENT (LONG BILL SUPPLEMENTAL)	RECOMMENDED FY 2019-20 APPROPRIATION
Funded Pupil Count	896,001	0	896,001
Inflation Rate	2.7%	0.0%	2.7%
Statewide Base Per Pupil Funding	\$6,952	\$0	\$6,952
Total Program Funding			
Total Program before Budget Stab. Factor	\$8,178,375,722	\$0	\$8,178,375,722
Budget Stabilization Factor	(572,396,894)	0	(572,396,894)
<i>Budget Stabilization Factor as Percentage</i>	<i>-7.00%</i>	<i>n/a</i>	<i>-7.00%</i>
Adjusted Total Program	\$7,605,978,828	\$0	\$7,605,978,828
Statewide Average Per Pupil	\$8,489	n/a	\$8,489
Local And State Shares			
Local Share	<u>\$2,977,176,606</u>	<u>\$0</u>	<u>\$2,977,176,606</u>
Property Tax	2,776,034,750	0	2,776,034,750
Specific Ownership Tax	201,141,856	0	201,141,856
State Share	<u>\$4,628,802,222</u>	<u>\$0</u>	<u>\$4,628,802,222</u>
General Fund	4,166,423,114	0	4,166,423,114
Cash Funds (SEF)	393,550,471	17,797,266	411,347,737
Cash Funds (SPSF)	68,828,637	(17,797,266)	51,031,371

FY 2020-21 LONG BILL RECOMMENDATION FOR TOTAL PROGRAM

During figure setting, the Committee approved a framework to establish the FY 2020-21 Long Bill appropriation for the state share of districts' total program funding. Based on changing circumstances, staff is recommending some adjustments to that framework. Staff's revised recommendation for the FY 2020-21 Long Bill appropriation includes the following assumptions:

- *Budget Stabilization Factor:* Current law (as enacted in S.B. 19-246 (School Finance)) will not allow the budget stabilization factor to increase as a dollar amount from FY 2019-20 to FY 2020-21. Thus, the staff recommendation *for the Long Bill appropriation* holds the budget stabilization factor constant at \$572,396,894 in FY 2020-21. Given the increases in state funding required to achieve that target, staff recognizes that sustaining that goal may not be possible. However, because the Long Bill reflects current law, the recommendation assumes that any changes to that amount will be enacted in separate legislation such as the annual School Finance Bill.
- *State Education Fund Balance:* In previous discussions (during figure setting and the March 16, 2020, discussion) staff had recommended targeting a year-end balance of \$150.0 million in the State Education Fund at the end of FY 2020-21. Given the precipitous decline in anticipated State Education Fund revenues and current projections anticipating a balance of \$113.0 million at the end of FY 2019-20, **staff is now recommending a target balance of \$100.0 million at the end of FY 2020-21.** The revised recommendation is consistent with practice from recent years. Staff recognizes that stakeholders may wish to see additional spending from the State Education Fund for FY 2020-21 to mitigate growth in the budget stabilization factor. However, staff is concerned about the potential for further declines in state revenues *and* potential risk to property tax revenues supporting the local share of school finance in FY 2020-21. Thus, staff recommends maintaining the \$100.0 million target for FY 2020-21. Please note that staff's current projections account for changes to FY 2020-21 appropriations approved for the Long Bill but do not account for potential changes in separate legislation (including the Committee's balancing bills).

- *State Public School Fund Balance:* Based on the volatility of federal mineral lease revenues credited to the State Public School Fund, the staff recommendation targets a fund balance of approximately \$30.8 million at the end of FY 2020-21. That targeted fund balance includes: (1) an estimated \$25.8 million in marijuana sales tax revenue expected to be deposited in the fund in FY 2020-21 and available for appropriation in FY 2021-22; and (2) a buffer of \$5.0 million to account for potential forecast error in FY 2020-21. As with the State Education Fund, staff's current projections account for changes to FY 2020-21 appropriations approved for the Long Bill but do not account for potential changes in separate legislation (including the Committee's balancing bills).
- *CPP Slots:* The recommendation also assumes continuation of current law with respect to Colorado Preschool Program (CPP) slots (a total of 29,360 half-day slots). Any change to that number would require a change in statute, with an estimated average cost (or savings) of \$4,226 per half-day slot.
- *ASCENT Slots:* The staff recommendation includes 500 slots for the Accelerating Students through Concurrent Enrollment (ASCENT) Program, with no change from the FY 2019-20 appropriation. Increasing the number of slots would increase the pupil count and increase the required appropriation (by \$7,956 per pupil). Conversely, decreasing the number of slots would decrease the pupil count and the necessary appropriation accordingly.

REVISED STAFF RECOMMENDATION

As the Committee is aware, the revenue outlook has shifted significantly during the FY 2020-21 budget process, as illustrated by the shifting changes to the estimated cost of school finance since December.

- During the briefing for school finance, staff's projections indicated that maintaining a constant budget stabilization factor based on the assumptions outlined above (including the \$150.0 million ending balance in the State Education Fund) would have allowed the General Assembly to *reduce* the General Fund appropriation for total program by \$7.4 million below the original FY 2019-20 appropriation.
- On March 16, 2020, staff estimated that maintaining that those targets would require an increase of approximately \$82.8 million in state funds and \$79.8 million General Fund above the FY 2019-20 appropriation. That recommendation accounted for both changes in revenue expectations and an increase of \$3.8 million associated with new cost of living factors.
- Today, based on adjustments to the projected count of at-risk students and the resulting increase in the cost of total program before the budget stabilization factor (an increase of \$73.9 million), staff is estimating that maintaining a constant budget stabilization factor would require an increase of \$156.7 million in total state funding (above the FY 2019-20 appropriation). However, the declines in anticipated revenues from the State Public School Fund and the State Education Fund (discussed above) require an increase of \$326.6 million General Fund (above the recommended FY 2019-20 appropriation) to maintain the constant budget stabilization factor and offset anticipated revenue reductions from the other fund sources.

Based on the changes outlined above, staff recommends approving an appropriation of \$4,785,496,579 total funds for the State Share of Districts' Total Program Funding line item in the FY 2020-21 Long Bill. The recommendation includes the following fund sources:

- **\$4,492,997,578 General Fund** (an increase of \$326.6 million above the FY 2019-20 appropriation).
- **\$233,760,242 cash funds from the State Education Fund** (a decrease of \$177.6 million below the FY 2019-20 appropriation (as adjusted by the Long Bill supplemental recommendation above)).

As noted above, the recommendation now assumes a target balance of \$100.0 million at the end of FY 2020-21.

- **\$58,738,759 cash funds from the State Public School Fund** (an increase of \$7.7 million above the recommended appropriation for FY 2019-20).

Table 3 (below) shows the components of the staff recommendation for FY 2020-21 assuming a constant budget stabilization factor and based on the framework discussed above. As shown in the table, maintaining the budget stabilization factor at \$572.4 million would increase projected statewide average per pupil funding from \$8,489 in FY 2019-20 to \$8,748 in FY 2020-21, an increase of \$260 per pupil (3.1 percent).

TABLE 3: FY 2020-21 TOTAL PROGRAM FUNDING LONG BILL				
	FY 2019-20 APPROPRIATION (INCLUDING STAFF RECOMMENDED ADJUSTMENT)	GOVERNOR'S REVISED (JANUARY 15) REQUEST (EXCLUDING CPP EXPANSION)	STAFF LONG BILL RECOMMENDATION (REVISED DATA AND CONSTANT BUDGET STAB. FACTOR)	ANNUAL CHANGE
Funded Pupil Count	896,001	896,094	896,094	93
Inflation Rate	2.7%	1.9%	1.9%	N/A
Statewide Base Per Pupil Funding	\$6,952	\$7,084	\$7,084	\$132
Total Program Funding				
Total Program before Budget Stab. Factor	\$8,178,375,722	\$8,333,734,614	\$8,411,855,677	\$233,479,955
Budget Stabilization Factor	(572,396,894)	(520,396,894)	(572,396,894)	0
<i>Budget Stabilization Factor as Percentage</i>	<i>-7.00%</i>	<i>-6.24%</i>	<i>-6.80%</i>	<i>0.19%</i>
Adjusted Total Program	\$7,605,978,828	\$7,813,337,720	\$7,839,458,783	\$233,479,955
Statewide Average Per Pupil	\$8,489	\$8,719	\$8,748	\$260
Local And State Shares				
Local Share	<u>\$2,977,176,606</u>	<u>\$3,054,571,884</u>	<u>\$3,053,962,204</u>	<u>\$76,785,598</u>
Property Tax	2,776,034,750	2,846,779,854	2,846,170,174	70,135,424
Specific Ownership Tax	201,141,856	207,792,030	207,792,030	6,650,174
State Share	<u>\$4,628,802,222</u>	<u>\$4,758,765,836</u>	<u>\$4,785,496,579</u>	<u>\$156,694,357</u>
General Fund	4,166,423,114	4,214,766,622	4,492,997,578	326,574,464
Cash Funds (SEF)	411,347,737	459,996,808	233,760,242	(177,587,495)
Cash Funds (SPSF)	51,031,371	84,002,406	58,738,759	7,707,388
Annual General Fund Increase		48,343,508	\$326,574,464	\$326,574,464
Statutory Change Required		Yes	Yes	

Staff requests permission to adjust the fund sources as necessary based on the Committee's choice of revenue forecast and any additional Committee decisions for the Long Bill that would affect the balance of either the State Education Fund or the State Public School Fund. As discussed above, the recommendation incorporates balancing actions that the Committee has already approved *for the Long Bill*. However, because the Long Bill reflects current law, the recommendation does not account for balancing actions approved for separate legislation. Staff assumes that the separate bills will include the changes to school finance appropriations enabled by those bills.

Given the magnitude of budgetary challenges facing the Committee, staff recognizes that maintaining the recommended appropriation may not be possible. Staff intends to return to the Committee at a later date for a discussion of potential balancing options associated with school finance as well as the potential impact of federal (CARES Act) funding on school finance for FY 2020-21.