

SCHOOL FINANCE IN COLORADO



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FOREWORD

The purpose of this booklet is to help readers understand how Colorado finances its public elementary and secondary schools. The major focus of this booklet is an explanation of the funding formula included in the Public School Finance Act of 1994, including amendments made to the act in 2001.

Several illustrations are provided to help readers calculate funding under the formula. The booklet also describes several other important provisions of law that relate to school district funding. These provisions include a description of revenue that is earmarked for specific functions, other local sources of revenue, and selected specific-purpose programs that provide money to schools and school districts. Please note that this booklet is intended to provide a generic overview of programs that affect funding for schools; state law provides more specific details on the operation of the programs.

This booklet was prepared by the Colorado Legislative Council Staff, the non-partisan research arm of the Colorado General Assembly. It is also available via the Internet at http://www.state.co.us/gov_dir/leg_dir/lcsstaff/schfin/01-02-bkt.htm

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COLORADO'S SCHOOL FINANCE ACT

Colorado's school finance act distributes over \$3.8 billion annually in state and local dollars to the state's 178 school districts for K-12 public education. Currently, these moneys are allocated under a law called the "Public School Finance Act of 1994." The school finance act contains a formula that calculates a per pupil funding amount for each school district based on the individual characteristics of the district, such as the cost to live in the district and the number of students enrolled. The act is explained in detail on the following pages, including amendments made under the most recent school finance bill, Senate Bill 01-129. Many of the terms used in this booklet relate specifically to school finance, so a glossary is provided beginning on page 39.

THE FUNDING FORMULA

The formula for determining how much funding each school district receives under the school finance act includes several components. This section first describes the formula in general terms and then each component in greater detail.

What Is Total Program?

"Total program" refers to the total amount of funding received by a district under the school finance act, from both state and local sources. A district's total program is simply the number of pupils in the district multiplied by the district's per pupil funding level, plus an amount of funding provided to the district to compensate for the presence of at-risk pupils.

$$\text{Total Program} = (\text{Pupils} \times \text{Per Pupil Funding}) + \text{At-Risk Funding}$$

The specific components of this formula are described in the following paragraphs along with the steps involved in calculating a district's total program.

How Are Pupils Counted?

Funding under the school finance act is based on the number of pupils enrolled in the school district on October 1. Thus, the number of pupils counted on October 1, 2001, determines funding for the budget year beginning July 1, 2001. Because the fiscal year begins in July, state aid is distributed based on estimated pupil counts. After October 1, when all pupils have been counted, state aid is adjusted to reflect the actual count. The funded pupil count is expressed in full-time equivalent (FTE) pupils to reflect the amount of time a student spends in an instructional setting.

The act provides an alternative to the October 1 count date in certain instances, such as when students in a year-round educational program will be on vacation on October 1. This alternative count date must be within 45 after the first school day after October 1.

The formula also makes allowances for districts that lose pupils from one year to the next, recognizing that such districts may have difficulty budgeting for fewer pupils. The pupil count for **declining enrollment districts** incorporates the greater of a two-year, three-year, or four-year average of the October counts.

How Is Per Pupil Funding Calculated?

Per Pupil Funding Is the Statewide Base Adjusted by a District's Factors

A district's per pupil funding is the result of adjusting the statewide base by the district's cost-of-living factor, personnel costs factor, nonpersonnel costs factor, and size factor. The

formula for computing per pupil funding is illustrated below and on page 24.

$$\text{Per Pupil Funding} = [(\text{Base x Personnel Costs Factor} \times \text{Cost-of-Living Factor}) + (\text{Base} \times \text{Nonpersonnel Costs Factor})] \times \text{District Size Factor}$$

"Statewide Base" Is Starting Point

The calculation of each district's per pupil funding starts with a statewide base per pupil funding amount, which is set annually by the General Assembly. The statewide base for FY 2001-02 is \$4,202, an increase of five percent (\$200.30) over the prior year. Base funding accounts for roughly \$3 billion of the \$3.8 billion allocated under the formula in FY 2001-02, or approximately 77 percent of total program.

Although the General Assembly sets the base annually, Article IX, Section 17 of the Colorado Constitution, commonly referred to as Amendment 23, contains minimum increases for the base. Through FY 2010-11, the General Assembly must increase the base each year by the rate of inflation plus one percentage point. Thereafter, the General Assembly must increase the base by at least the rate of inflation.

A portion of the base is adjusted upward to account for differences in the cost of living in each district. An adjustment is also included for district size as measured by enrollment. A description of each of the components follows.

The Statewide Base Is Adjusted for Cost of Living

Each school district is assigned a factor to indicate the cost of living in the district relative to the cost of living in other districts in the state. The factors for FY 2001-02 range from 1.008 to 1.638. Statewide, nearly \$564 million in FY 2001-02

school finance act funding can be attributed to application of the cost-of-living factor, or nearly 15 percent of total program.

The cost-of-living factors are not contained in law, although the method for calculating the factors is. The cost-of-living factors are certified to the Department of Education by the Legislative Council Staff every two years following a study that measures the cost in each district of an identical set of items, such as housing, goods and services, transportation, and taxes. For the 2002-03 and 2003-04 budget years, the results of the 2001 cost-of-living study will be used to modify the factors from the previous two-year cycle. Factors are increased in districts where the study indicates an increase greater than the rate of inflation. The increase is equal to the percentage change in the district's cost of living from the previous study divided by the inflation rate. The increase in the factor is rounded to three decimal places.

District "Personnel Costs Factor" Defines the Portion of the Statewide Base Adjusted for Cost of Living

The formula recognizes that differences in cost of living primarily affect the salaries that must be paid to hire and retain qualified personnel. Therefore, the cost-of-living factor is applied only to the portion of the base that relates to personnel, as defined by the personnel costs factor.

Personnel costs factors range from 79.9 percent to 90.5 percent and differ by district according to enrollment; smaller districts have smaller factors. The formula for determining district personnel costs factors is illustrated on page 25.

Each district's *"nonpersonnel costs factor"* is the difference between 100 percent and the district's personnel costs factor. It is the portion of the base which is *not* adjusted for cost of living and ranges from 20.1 percent to 9.5 percent.

District Size Factor Compensates for Economies of Scale

The act includes a size factor to provide additional money for small school districts unable to take advantage of economies of scale and very large districts that face higher costs because of their size. The smallest districts receive the largest size factors and, therefore, more funding per pupil. In FY 2001-02, approximately \$160 million is allocated through the size factor, or nearly four percent of total program.

Similar to the personnel costs factor, a size factor is calculated under a formula using district enrollment. The factor affects districts as follows:

- the smallest districts—districts with enrollments of less than 4,566—receive the largest size factor (up to a maximum possible factor of about 2.6000);
- medium-sized districts—districts with enrollments between 4,566 and 29,977—receive a size factor of at least 1.0268; and
- large districts—districts with enrollments greater than 29,977—receive a factor that increases up to 1.0342.

The formula for calculating the size factor for medium-sized districts has been changing in recent years so that medium and large-sized districts will all receive the same factor in FY 2002-03. In that year, all districts with enrollments of 4,023 or more will receive a size factor of 1.0342. The formula for calculating a school district's size factor appears on page 25.

Since the formula for determining the size factor is based on a district's enrollment, the act acknowledges that the formula inherently provides incentives and disincentives for districts to reorganize and take advantage of the formula. For example, when a reorganization results in a lower size factor, and less funding per pupil, the lower size factor is phased in over six years. When a reorganization results in a higher size factor, and

more funding per pupil, the district or districts involved in the reorganization receive the lower size factor of the original district. Thus, the act lessens the negative fiscal impact of reorganization while prohibiting a district from taking advantage of a higher size factor following a reorganization.

The act attempts to minimize the effect that charter schools may have on the size factor of small school districts. The size factor for districts with less than 500 pupils is calculated using the district's enrollment, minus 65 percent of the pupils enrolled in charter schools.

What Is At-Risk Funding?

Colorado's school finance act provides additional funding for school districts that serve students who are at risk of failing or dropping out of school. The additional funding is based on the district's per pupil funding and the number of at-risk students, in addition to the proportion of at-risk students in the district. The proportion of at-risk students in each district is measured against the statewide average proportion to come up with an "at-risk factor." At-risk funding is determined according to the following formula.

$$\text{At-Risk Funding} = \text{At-Risk Pupils} \times \text{At-Risk Factor} \times \text{Per Pupil Funding}$$

In FY 2001-02, the act provides an estimated \$127 million in at-risk funding statewide, or over three percent of total program.

Definition of At-Risk Pupils Follows Federal Free Lunch Program and Includes Some Students with Limited English Skills

Under the act, at-risk pupils are defined as students from low-income families, as measured by eligibility for free lunches under the National School Lunch Act. The definition of at-risk

pupils also includes a limited number of non-English-speaking students.

Students qualify for free meals at school based on their family's income. The act defines at-risk pupils as those who are *eligible* for free lunches so districts can receive funding for students that do not actually participate in the federal program. As an alternative, the act allows districts to use the proportion of free-lunch students in grades one through eight multiplied by the district's enrollment if it produces a larger number than the actual count. This alternative count is provided because some high schools do not offer free lunches, and some students choose not to participate in the free lunch program, especially at the high school level.

Beginning July 1, 2001, a student with limited proficiency in English, as defined by the English Language Proficiency Act, can be included in the at-risk count if the student meets one of two criteria. First, a student can be counted if he or she took the Colorado Student Assessment Program (CSAP) test in a language other than English in the preceding year. Second, a student can be counted if the student took the regular, English CSAP, but the student has been in a Colorado public school for less than three years (two years for third graders). In either case, a student can be counted as at risk only once; therefore, a student who is counted under the income guidelines of the free lunch program cannot be counted because of limited proficiency in English.

Similar to the averaging of pupils for the district count, the at-risk count is averaged to make allowances for the financial impact of declines in the count. Beginning July 1, 2001, a district's at-risk count is the greater of: (1) the actual count for the budget year; (2) an average of the counts for the current and preceding budget years; and (3) an average of the counts for the current and two preceding budget years.

Preschool students are not included in a district's at-risk count. The official date for counting at-risk pupils is October 1.

At-Risk Factor Determines Additional Funding for At-Risk Pupils

The proportion of at-risk students in a district is used to calculate an "at-risk factor." This factor determines the amount of funding a district receives for its at-risk pupils. Every district receives an at-risk factor of at least 11.5 percent, which entitles the district to an additional 11.5 percent of its per pupil funding for each at-risk pupil.

Districts with High Concentrations of At-Risk Pupils Receive More Funding

Districts with higher-than-average proportions of at-risk students receive a higher at-risk factor. The increase in the at-risk factor for these districts depends upon the enrollment of the district. For districts with enrollments between 459 and 50,000, the higher factor is equal to 11.5 percent plus three-tenths of a percentage point for each percentage point that the district's at-risk concentration exceeds the statewide average. Thus, if the statewide average incidence is 25 percent, and a particular district has 36 percent of its students defined as at risk, the district's at-risk factor would be 14.8 percent ($11.5 + (0.3 \times 11) = 14.8$). For districts with enrollments greater than 50,000, the higher factor is equal to 11.5 percent plus 0.36 of a percentage point for each percentage point that the district's at-risk concentration exceeds the statewide average.

The higher factor is provided only for pupils over the statewide average incidence of at-risk pupils. So, the district described above with 36 percent at-risk students would receive 11.5 percent more in per pupil funding for 25 percent of its students and 14.8 percent more in per pupil funding for the other 11 percent of its students who are at risk. In addition, only districts with more than 459 pupils qualify for the higher at-risk factor. The higher factor is capped at 30 percent.

LOCAL SHARE AND STATE AID

The money to fund total program comes from a combination of local and state sources. In FY 2001-02, local taxpayers are expected to contribute an average of 42.2 percent of total program, while state sources account for the remaining 57.8 percent. These percentages vary widely among individual school districts, however, because districts have different amounts of property wealth. Under the act, each district's local portion is calculated first, and state aid makes up the difference between the local portion and total program. This principle of using state aid to make up for differences in local property wealth is called "equalization."

How Is the Local Share Calculated?

A district's local share comes from two sources—property taxes and specific ownership taxes. Property taxes are paid on real estate; specific ownership taxes are paid on motor vehicles. Of the two local taxes, property taxes produce roughly ten times as much revenue as specific ownership taxes. Both of these taxes are described in greater detail below.

$$\text{Local Share} = \text{Current Year Property Taxes} + \text{Prior Year Specific Ownership Taxes}$$

Property Taxes Provide Most Local Revenues

Statewide, property taxes are expected to contribute almost \$1.5 billion in funding for school finance in FY 2001-02, or 37.7 percent of total program. A school district's property taxes are the result of multiplying a district's taxable property (assessed value) by its property tax rate (mill levy). The assessed value of a district is determined each year, and it includes all taxable property in the district. Mill levies are

calculated according to a formula in state law which is designed to comply with constitutional limits.

The formula in law requires each district to impose the mill levy from the prior budget year unless that levy will increase property taxes by a greater percentage than allowed. The maximum allowable percentage increase in property taxes for each district is the sum of the state inflation rate and the percentage change in enrollment. If a district's property taxes will exceed that amount with the prior year's levy, the district must reduce its mill levy so that annual change in property tax revenue does not grow faster than the maximum allowed.

The law also includes a ceiling on mill levies. A district's levy cannot be higher than the levy needed to fund the district's total program less specific ownership tax revenue and minimum state aid. This levy calculation is used in a limited number of districts with very high property wealth.

Specific Ownership Taxes Supplement Property Taxes

Specific ownership taxes are expected to contribute about \$174 million for school finance in FY 2001-02, bringing the local share to 42.2 percent of total program. Specific ownership taxes are paid annually on motor vehicles instead of property taxes. Counties collect specific ownership taxes and distribute them to all governments in the county that collect property taxes, such as school districts, cities, special districts, and the county itself. By law, counties distribute specific ownership tax revenues to these governments in proportion to the amount of property taxes collected by each. Thus, a school district that receives 50 percent of all the property taxes collected in a county would receive 50 percent of the specific ownership taxes collected in the county.

The funding formula does not count all specific ownership tax revenue against the district's local share, however. Some districts collect more specific ownership taxes than others simply because the voters in those districts have approved

additional property taxes. The formula specifically does not count any specific ownership taxes attributable to a bond redemption (debt) or override (operating) mill levy, if the mill levy was approved by the district's voters.

The formula uses specific ownership taxes collected in the previous fiscal year because they are the most recent actual figures. Thus, the local share in FY 2001-02 includes FY 2000-01 specific ownership tax revenue.

How Is State Aid Calculated?

State aid provides the difference between a district's total program and the district's local share. In school finance, this concept of state assistance supplementing local resources is called "equalization." An equalized school finance system allows similar districts to spend similar amounts regardless of property wealth. For FY 2001-02, state aid is expected to provide \$2.2 billion, or 57.8 percent, of total program.

$$\text{State Aid} = \text{Total Program} - \text{Local Share}$$

Districts that produce less from property taxes receive a greater proportion of state aid, but the state guarantees that even the wealthiest districts get a minimum amount of aid per pupil. This per pupil amount, established annually in the long appropriations bill, is based on the amount of school lands and mineral lease moneys received by the state. For FY 2001-02, minimum state aid is \$84.31 per pupil.

The state distributes aid to school districts in 12 approximately equal monthly payments. In the first half of the fiscal year, the payments are based upon pupil count and assessed value estimates, because the state does not know exact pupil counts and district assessed values during that time period. The payments are later adjusted to reflect actual pupil

counts and assessed values. These approximately equal monthly payments may cause some districts to experience cash flow problems at certain times of the year, so the state offers an interest-free loan program to qualifying school districts. This loan program is discussed in further detail on page 20.

State Aid Comes Primarily from Three Sources

Three sources of revenue provide money for the state aid appropriation for school finance. The state General Fund provides the vast majority of money: in FY 2001-02, 94 percent, or just under \$2.1 billion, of the appropriation is provided by the General Fund. The state constitution requires that the General Fund appropriation increase by at least five percent each year through FY 2010-11, unless Colorado personal income grows by less than 4.5 percent between the two calendar years that precede a fiscal year.

For the first time in FY 2001-02 the State Education Fund contributed to the state aid appropriation. The State Education Fund, created by Article IX, Section 17, of the Colorado Constitution, receives revenue equal to a tax of one-third of one percent on federal taxable income. Its contribution to the state aid appropriation is almost \$71 million in FY 2001-02, or 3.2 percent of the state aid package. Finally, rent from state school lands, interest on the Public School Fund, federal mineral lease moneys, and other miscellaneous sources of money provide the remaining 2.8 percent (\$60 million) of state aid.

MODIFICATIONS TO THE FUNDING FORMULA

The state's basic funding formula applies to nearly all districts. However, the act makes modifications to the formula to account for unusual situations in some districts. These modifications may cause a district's total program to be computed differently than the formula described in the

preceding pages. In addition, the act contains modifications that may alter the share of a district's funding that comes from state or local sources. These modifications are reviewed below.

Modifications to Total Program

There are three modifications that cause a district's total program to be computed differently than the formula described in the preceding pages. These modifications provide for minimum per pupil funding levels, a cap on increases in total program, and a cap on annual increases in per pupil funding.

The Law Contains Minimum Per Pupil Funding Levels

A school district can receive a higher per pupil funding level than the formula provides in two situations. First, the law guarantees that all districts will receive at least \$5,100 per pupil in FY 2001-02. This funding level applies to any school district that would have a lesser per pupil funding amount under the formula. Six districts are expected to benefit by about \$2.2 million from this minimum per pupil funding provision. The amount of minimum per pupil funding increases each year by the same percentage as the statewide base amount.

The second situation applies to eight specific districts that were funded under the act's minimum provisions in FY 1996-97. The per pupil funding level in these districts is equal to the prior year's per pupil funding amount plus their increase in formula funding. The increase in formula funding excludes any increase that a district might otherwise receive from some of its factors, however. For example, a district's increase in per pupil funding does not include any increase in its size factor, nor would it include any increase in at-risk funding if the General Assembly opted to increase the at-risk factor above the current 11.5 percent. In FY 2001-02, none of the eight districts are expected to be funded under this minimum provision. Six of the districts are projected to be funded under the minimum provision described in the

preceding paragraph, while the remaining two districts are expected to receive funding under the basic formula.

Increases in Total Program Are Capped

Under the act, annual increases in district total program are limited to the respective district's constitutional spending limit percentage (inflation plus the percentage change in district enrollment). The limit in the statute, however, is applied only to school finance funding (property taxes, specific ownership taxes, and state aid), while districts often receive additional funding from other sources. In addition, voters can agree to let a district collect more than the limit, and some money received by districts is exempt from the limit. Thus, the law allows districts to receive the total amount of formula funding if they can certify that the moneys will not cause the district to exceed its constitutional spending limit, when that limit is applied to all of the district's spending from the prior year.

Increases in Per Pupil Funding Are Capped

The act sets a cap on increases in total per pupil funding of 25 percent per year.

Modifications to the State and Local Shares

Just as there are exceptions to the calculation of total program, some districts' local share or state aid may be modified depending on a district's particular situation. For example, some districts pay for categorical programs, and state aid may be reduced in certain circumstances.

Some Districts Pay for Categorical Programs

The categorical buyout provisions of the school finance act require certain districts to offset or "buy out" state aid for categorical programs with local property tax revenue. This requirement applies to districts with very high property wealth.

These districts can fund their total program, less minimum state aid and specific ownership taxes, with a levy less than the prior year's levy or a property tax change less than the sum of inflation plus the percentage change in enrollment. These districts must levy additional mills to pay for the categorical programs in their district. The categorical programs that are covered by these provisions include special education, the English Language Proficiency Act, transportation, vocational education, and small attendance centers. The additional levy for the categorical buyout cannot result in a levy that is greater than the prior year's or in property taxes that exceed the property tax revenue limit.

State Aid May Be Reduced in Certain Circumstances

State aid to school districts may be reduced if the General Assembly's original appropriation is insufficient or if a law is passed to reduce the appropriation. In these instances, state aid would be reduced by a percentage of total program. Total program would be reduced by the same percentage in all districts, but no district would lose more state aid than it would actually receive.

EARMARKED REVENUE

There are four provisions in the school finance act that require districts to earmark revenue for specific purposes. All other moneys under the school finance act are spent at the districts' discretion.

Districts Must Earmark Money for Instructional Supplies, Materials, and Capital Outlay

For FY 2001-02, each district must budget \$152 per pupil for items such as supplies, textbooks, library books, and periodicals. Districts can also use the money to acquire fixed assets for instruction, to transport pupils to school-sponsored

instructional activities, and to repair or maintain instructional equipment. Each year, the per pupil allocation is increased by the same percentage as the statewide base per pupil amount.

Districts Must Earmark Money for Capital Reserve and Risk Management

Districts must allocate at least \$248 per pupil in FY 2001-02 to a capital reserve fund or a risk management fund. Districts may allocate the \$248 to the two funds as they wish, and transfers between the funds are permitted. The law caps the total amount that may be transferred in any year at \$800 per pupil. Capital reserve moneys may be used to acquire land or improvements, construct buildings or additions, renovate buildings when the cost exceeds \$2,500, purchase school buses or other equipment when the per unit cost is greater than \$1,000, or pay for software licensing that costs more than \$1,000. Risk management moneys are used to pay for insurance or to repair or replace school district property that has been damaged.

Just as with the allocation for instructional supplies, the per pupil allocation for capital reserve and risk management is increased each year by the same percentage as the statewide base per pupil amount. The mandatory per pupil allocation for capital reserve/risk management does not apply to any district that has a balance in its capital reserve fund of at least five times the required minimum transfer.

Districts Must Earmark a Portion of At-Risk Moneys

Districts are required to allocate a portion of the at-risk moneys they receive for specific purposes, and the purpose and amount depends on the source of the money. Seventy-five percent of at-risk moneys received from the count of students who are eligible for free lunch must be allocated for instructional programs or staff development efforts that relate directly to at-risk pupils. Districts must allocate all of the

at-risk money generated by students with limited English skills to English language proficiency programs. English language proficiency programs are also the recipients of the increase in at-risk funding resulting from the increase (from 0.34 to 0.36) in the at-risk concentration factor. This latter earmarking requirement applies solely to Denver, the only school district that meets the eligibility criteria for the higher factor.

Districts Must Earmark All Preschool Moneys

Beginning in FY 2001-02, money received by districts for the Colorado Preschool Program must be allocated to the district's preschool program fund. The amount that must be allocated is determined by multiplying the preschool count by the district's per pupil operating revenues. Money in the fund can be spent on teacher and paraprofessional salaries and benefits, contracting for preschool services, supplies and materials, home visits, professional development, and a reasonable portion of district overhead costs.

UNEQUALIZED LOCAL REVENUE

The bulk of school district revenues are equalized, meaning that the state provides funding to equalize property wealth or "level the playing field." However, the school finance act also allows local school districts some discretion to raise additional local revenue, for which the state provides no equalization. These unequalized local revenue sources are described below.

School Districts May Raise Additional Property Taxes for Operating Purposes

The act allows districts to raise and spend additional property taxes, with voter approval, in excess of the amount authorized by the state's funding formula. These additional property taxes are called overrides. In FY 2000-01, 45 school districts collected \$210 million in voter-approved property

taxes. Since some districts are phasing in their overrides, the amount of taxes collected was somewhat less than the amount authorized by voters.

The act limits overrides to 20 percent of a district's total program or \$200,000, whichever is greater. Overrides are generated solely from property taxes, and the total dollar amount approved by voters remains the same unless additional funding is approved at a subsequent election. Any dollar amounts approved at elections held since 1988 count toward the override limit. Specific ownership taxes that a district collects because of its override mill levy are also counted against the limit, as are specific ownership taxes from a bond levy when the proceeds of the bond levy are not used to pay off the debt.

The override for 34 districts also includes approximately \$21.3 million in funding relating to the act's former hold harmless provisions. This funding was designed to hold districts harmless from any decrease in per pupil funding resulting from the passage of the 1994 act. In one district, the funding was derived from a higher-than-average mill levy. In 1995, these hold harmless provisions were eliminated and the hold harmless amounts were considered the same as overrides. They are now calculated separately from total program and are paid solely through local property taxes. With this change, the override amount for some districts exceeded the override limit. In these situations, the law prohibits a district from holding an election until the override amount is less than the limit.

School Districts Can Ask Voters to Approve Property Taxes for a Supplemental Cost-of-Living Adjustment

Beginning in FY 2001-02, eligible school districts can ask their voters to approve a mill levy to supplement funding received through the school finance formula from the cost-of-living factor. A school district is eligible to request an increase in property taxes if the district's "adjusted" cost-of-living factor is greater than the cost-of-living factor used in the funding formula. A district's adjusted factor is

determined by dividing the district's cost-of-living dollar amount by the lowest cost-of-living dollar amount in the state and rounding the dividend to three decimal places. For example, a district with a cost of living of \$40,000 would have an adjusted cost-of-living factor of 1.481 if the lowest cost-of-living amount in the state is \$27,000 ($\$40,000 \div \$27,000 = 1.481$).

The amount of supplemental property taxes is limited to the difference between total program calculated with the adjusted cost-of-living factor and total program calculated under the school finance formula. Thus, assuming that the district in the example above has a cost-of-living factor in the finance formula of 1.400, the district would be able to request voter approval for the difference in funding from an increase in the cost-of-living factor of .081.

Supplemental Cost-of-Living Property Taxes	=	Total Program with Adjusted Factor	-	Total Program
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A district can continue collecting property taxes for the supplemental cost-of-living adjustment once it has received voter approval, within certain limitations. First, a district cannot collect more in property taxes than the amount calculated using the adjusted factor. This amount could change annually. Second, after the initial election, a district cannot increase its levy above the preceding year's levy without another election.

Unequalized District Property Taxes also Pay for Debt

Independent of the school finance act, state law permits school districts to request voter approval to incur debt by issuing bonds. This is known as bonded debt. Districts repay the debt with a dedicated mill levy. Bonded debt is generally

used by school districts for major capital construction projects. Revenue collected from a bonded debt mill levy must be credited to the district's bond redemption fund and used to repay the bondholders.

State law imposes a limit on the amount of bonded debt a school district may incur. Districts are prohibited from issuing bonded debt in excess of 20 percent of the district's assessed valuation or six percent of actual value, whichever is greater. For districts that meet specified increasing enrollment criteria and have debt elections approved between July 1, 1994, and July 1, 2005, the limit is the greater of 25 percent of assessed value or six percent of actual value.

Voters Must Approve Transportation Levies or Fees

Although not part of the school finance act, state law permits school districts to request voter approval to impose a levy or fee to pay for transportation costs not reimbursed by the state. The proceeds from this levy or fee must be deposited in the district's transportation fund.

Voters Can Also Approve Special Building or Technology Levies

School districts can also request voter approval of up to ten mills for up to three years to maintain and construct schools or to purchase and install instructional technology. The proceeds from such a levy must be deposited in the special building and technology fund.

CASH FLOW LOAN PROGRAM

School districts may participate in an interest-free cash flow loan program sponsored by the state. The state General Fund is the source of revenue for the loan program, which was created to help districts deal with the fact that property tax

collections occur late in the budget year. A school district applies to the state treasurer for a loan. The loan is provided if the district meets the eligibility criteria in law. A district is eligible for a loan from the state in any month in which the district can demonstrate that a cash deficit will exist in its general fund. All loans must be repaid by June 25 of the state fiscal year in which the loan was made. A loan may not be made to provide assistance for matters eligible for payment from the contingency reserve or to cover a foreseeable level of uncollectible property taxes, nor may a loan be used by a district for arbitrage.

STATE CONTINGENCY RESERVE

State law requires the General Assembly to annually appropriate moneys to a contingency reserve fund to provide supplemental assistance to school districts. In FY 2001-02, the General Assembly appropriated \$1.8 million for this purpose. Moneys in the fund can be allocated by the State Board of Education to school districts for certain types of financial emergencies. Moneys are also available if a district's abatement levy is insufficient; if children placed in the district by a court create an unusual financial burden; to offset the impact of a decline in enrollment resulting from a detachment and annexation; or to offset the cost of pupils moving to a district after the count date. This last option is only available for districts under 2,000 pupils and only for the cost of the additional pupils.

In cases of extreme emergency, the state board may consider factors that are not specifically delineated in law and may provide financial aid from the contingency reserve to districts that could not maintain their schools without such additional assistance. In determining which districts receive payments from the contingency reserve and the amount of the payment, the state board must consider the amount of assistance requested as a percentage of each district's total program.

CAPITAL CONSTRUCTION

In addition to issuing bonds, school districts can request state assistance for some capital construction projects. Depending on the type of project and the school district's circumstances, the state may provide assistance as a grant, a matching grant, or a loan.

The School Capital Construction Expenditures Reserve Provides Grants to School Districts

The State Board of Education may distribute money from the School Capital Construction Expenditures Reserve only for capital expenditures that address immediate safety hazards or health concerns within existing school facilities, that relieve excessive operating costs created by insufficient maintenance or construction spending, or that relieve building construction conditions that detract from an effective learning environment. Any money in the reserve that is not spent by March 15 of each fiscal year is transferred to the School Construction and Renovation Fund. Over the 11-year period from FY 2000-01 through FY 2010-11, \$105 million dollars is scheduled to be appropriated to the School Capital Construction Expenditures Reserve from the General Fund (\$5 million the first year, \$10 million per year thereafter). Beginning with FY 2001-02, the reserve also receives the same amount of money that is appropriated for charter school capital construction. For FY 2001-02, \$15.3 million was appropriated to the School Capital Construction Expenditures Reserve.

The School Construction and Renovation Fund Provides Matching Grants to School Districts

The School Construction and Renovation Fund provides matching grant money to school districts for instructional facilities, such as classrooms, libraries, physical plants, and associated administrative areas. The State Board of Education determines the proportion of state and local funds to finance

each project and prioritizes projects based on criteria in law. The state board submits the prioritized list to the Capital Development Committee, who determines the number of projects to be funded and forwards a list of those projects to the Joint Budget Committee so that an appropriation can be included in the long appropriations bill. The fund is scheduled to receive its first appropriation of \$5 million in FY 2002-03, and a total of \$85 million between FY 2002-03 and FY 2010-11. Beginning in FY 2000-01, the fund could also receive unspent money from the School Capital Construction Expenditures Reserve.

The Permanent School Fund Provides Loans for School Districts

The State Treasurer can loan money to school districts from the Permanent School Fund for construction involving instructional facilities. As with the matching grants from the School Construction and Renovation Fund, any project for which a loan is sought must be on the prioritized list prepared by the state board. The state board also determines the amount of the loan. To obtain a loan, the voters of a school district are required to approve the debt and, if the loan is to be repaid from property taxes, the additional mill levy. The State Treasurer determines the amount of the fund that may be loaned out and the interest rate on any loans, which cannot be less than the rate of inflation.

The Contingency Reserve Could Provide Money for Safety Hazards or Health Concerns

Beginning in FY 2001-02, any lottery money that exceeds the cap and would have otherwise been transferred to the state General Fund is now transferred to the contingency reserve for school district capital expenditures. The state board may award this money to address immediate safety hazards or health concerns within existing school facilities.

CALCULATION EXAMPLES

The following tables are provided for two purposes. First, the tables help illustrate the calculations included in the formula. Second, the tables provide data on how to determine the factors used in the formula.

ILLUSTRATION 1: CALCULATING TOTAL PROGRAM

Total Program = (Per Pupil Funding x Pupils) + At-Risk Funding

	District A	District B
Per Pupil Funding x Number of Pupils	\$5,169 x 25,000 = \$129,225,000	\$5,736 x 450 = \$2,581,200
At-Risk Funding	<u>+ \$5,819,002</u>	<u>+ \$65,964</u>
Total Program	\$135,044,002	\$2,647,164

ILLUSTRATION 2: CALCULATING PER PUPIL FUNDING

Per Pupil Funding = [(Base x Personnel Costs Factor x Cost-of-Living Factor) +
(Base x Nonpersonnel Costs Factor)] x District Size Factor

	District A	District B
Base	\$4,202	\$4,202
x Cost-of-Living Factor	x 1.220	x 1.103
x Personnel Costs Factor	<u>x 0.9005</u>	<u>x 0.8248</u>
	\$4,616	\$3,823
Base	\$4,202	\$4,202
x Nonpersonnel Costs Factor	<u>x .0995</u>	<u>x .1752</u>
	\$418	\$736
Total Cost-of-Living Adjustment	\$4,616	\$3,823
	<u>+ \$418</u>	<u>+ \$736</u>
	\$5,034	\$4,559
Cost-of-Living Adjustment	\$5,034	\$4,559
x Size Factor =	<u>x 1.0268</u>	<u>x 1.2581</u>
Per Pupil Funding	\$5,169	\$5,736

**ILLUSTRATION 3:
DETERMINING THE PERSONNEL COSTS FACTOR**

For a pupil count of:	The district's personnel cost factor is:
Less than 454	$0.8250 - (0.0000639 \times \text{the difference between the pupil count and 454})$
454 or more but less than 1,568	$0.8595 - (0.0000310 \times \text{the difference between the pupil count and 1,568})$
1,568 or more but less than 6,682	$0.8850 - (0.0000050 \times \text{the difference between the pupil count and 6,682})$
6,682 or more but less than 30,000	$0.905 - (0.0000009 \times \text{the difference between the pupil count and 30,000})$
30,000 or more	0.905

**ILLUSTRATION 4:
DETERMINING THE SIZE FACTOR IN FY 2001-02***

For a pupil count of:	The district's size factor is:
Less than 276	$1.5502 + (0.00376159 \times \text{the difference between the district's pupil count and 276})$
276 or more but less than 459	$1.2430 + (0.00167869 \times \text{the difference between the district's pupil count and 459})$
459 or more but less than 1,027	$1.1260 + (0.00020599 \times \text{the difference between the district's pupil count and 1,027})$
1,027 or more but less than 2,293	$1.0578 + (0.00005387 \times \text{the difference between the district's pupil count and 2,293})$
2,293 or more but less than 5,650	$1.0120 + (0.00001364 \times \text{the difference between the district's pupil count and 5,650})^*$
5,650 or more but less than 25,546	1.0120*
25,546 or more but less than 32,193	$1.0120 + (0.00000334 \times \text{the difference between the district's pupil count and 25,546})^*$
32,193 or more	1.0342

* Minimum size factors are established as follows: 1.0194 for FY 2000-01, 1.0268 for FY 2001-02, and 1.0342 for FY 2002-03 and thereafter.

Note: The size factor for districts with less than 500 pupils is calculated using the district's enrollment, minus 65 percent of the district's pupils in charter schools.

**ILLUSTRATION 5:
DETERMINING THE AT-RISK FACTOR**

At-Risk Factor = 11.5% for pupils below the statewide average; 11.5% plus 0.3 (0.36 for districts with pupil counts greater than 50,000) for each percentage point over the statewide average.

	District A	District B
At-Risk Pupils Divided by Total Pupils	9,000 / 25,000 = 36.0%	100 / 450 = 22.2%
State Average At-Risk Percent	25.0%	25.0%
Does District Percentage Exceed Statewide Average?	Yes: 36.0% - 25.0% = 11.0% over	No: 22.2% - 25.0% = (2.8% under)
District Receives 0.3 Percentage Points for Each Percentage Point Over Statewide Average	11.0% x 0.3 = 3.30	0.0% x 0.3 = 0.00
At-Risk Factor	11.5 % + 3.30% = 14.80%	11.5% + 0.00% = 11.5%

**ILLUSTRATION 6:
CALCULATING AT-RISK FUNDING**

	District A	District B
At-Risk Pupils Divided by Total Pupils	9,000 / 25,000 = 36.0%	100 / 450 = 22.2%
State Average At-Risk Percent	25% (6,250 pupils)	25% (113 pupils)
Funding for Students Below State Average (11.5 % x Per Pupil Funding x Pupils Below Average)	11.5% x 5,169 <u>x 6,250</u> \$3,715,219	11.5% x 5,736 <u>x 100</u> \$65,964
Funding for Students Above State Average (At-Risk factor x Per Pupil Funding x Pupils Above Average)	14.80% x 5,169 <u>x 2,750</u> \$2,103,783	11.5% x 5,462 <u>x 0.0</u> \$0
Below Average + Above Average = Total At-Risk Funding	\$3,715,219 <u>+ \$2,103,783</u> \$5,819,002	\$65,964 <u>+ 0</u> \$65,964

A HISTORY OF SCHOOL FINANCE ACT FUNDING

(\$ in thousands, except for per pupil funding)

Year	Pupil Count	Pct Chg	Local Share ¹	Pct Chg	State Share ²	Pct Chg	Total Program	Pct Chg	Per Pupil Funding	Pct Chg
1993-94	598,723	N/A	1,173,360	N/A	1,333,473	N/A	2,506,833	N/A	4,187	N/A
1994-95	612,503	2.3%	1,212,975	3.4%	1,442,538	8.2%	2,655,513	5.9%	4,336	3.5%
1995-96	627,934	2.5%	1,257,025	3.6%	1,524,452	5.7%	2,781,477	4.7%	4,430	2.2%
1996-97	644,226	2.6%	1,301,484	3.5%	1,644,771	7.9%	2,946,255	5.9%	4,573	3.2%
1997-98	657,531	2.1%	1,372,814	5.5%	1,724,017	4.8%	3,096,831	5.1%	4,710	3.0%
1998-99	670,913	2.0%	1,417,205	3.2%	1,848,346	7.2%	3,265,110	5.4%	4,867	3.3%
1999-00	681,749	1.6%	1,476,033	4.2%	1,929,349	4.4%	3,405,202	4.3%	4,995	2.6%
2000-01	693,659	1.7%	1,538,638	4.2%	2,046,137	6.1%	3,584,775	5.3%	5,168	3.5%
2001-02 ³	705,783	1.7%	1,624,613	5.6%	2,221,880	8.6%	3,846,493	7.3%	5,450	5.5%

- Local share includes general fund property taxes and specific ownership tax revenue. Categorical buyout property taxes are subtracted from the local share; carryforward taxes are added. Other local revenue, such as override or bonded debt property taxes, are excluded.
- The state share includes state equalization less any rescissions. For FY 1993-94, state share includes funding for state equalization, increasing enrollment, and the provisions of House Bill 93-1320.
- Figures are estimates based on Senate Bills 01-129 and 01-91.

SPECIFIC-PURPOSE PROGRAMS

School districts in Colorado receive state revenue through a variety of programs designed to serve special groups of students or student needs. This section groups these programs into three categories and briefly describes the funding formulas for each. The three categories of programs are categorical programs, grant programs and other distributions, and programs funded through the school finance act.

CATEGORICAL PROGRAMS

Article IX, Section 17 of the Colorado Constitution, commonly referred to as Amendment 23, defines categorical programs as transportation programs, English language proficiency programs, expelled and at-risk programs, special education programs including gifted and talented programs, suspended student programs, vocational education programs, small attendance centers, comprehensive health education programs, and any other accountable program specifically identified in law as a categorical program. The General Assembly is required to increase total funding for all of these programs by the rate of inflation plus an additional percentage point through FY 2010-11 and by the rate of inflation thereafter. The General Assembly may use money in the State Education Fund to provide the increased funding. The state appropriation figures in the descriptive paragraphs below include General Fund and State Education Fund appropriations.

Special Education

The state provides special education funding for disabled students as well as for gifted and talented students. The Exceptional Children's Educational Act (ECEA) dictates how funding is distributed.

The State Provides \$76 Million in Funding for Disabled Students

State funding for special education of disabled students totals \$76 million in FY 2001-02. These funds are used to provide special services to 78,334 Colorado public school students with disabilities in FY 2001-02, or roughly 10.8 percent of total pupil membership.

Most funding to educate students with disabilities is distributed to administrative units. An administrative unit could be a school district, a board of cooperative services, or a combination of school districts. Under the law, roughly \$49.8 million is distributed to administrative units in proportion to the amount distributed in FY 1994-95. Another \$25.7 million is distributed directly to school districts based on the number of special education students in the district relative to the total number of such students statewide. The remaining \$500,000 is earmarked for administrative units that pay tuition to facilities to provide special education services to students whose parents cannot be located or are incarcerated or whose parental rights have been relinquished or terminated.

The State Provides Funding for Programs to Serve Gifted and Talented Students

For FY 2001-02, the General Assembly appropriated \$5.8 million for district gifted and talented programs. This money is used to provide staff, activities, and educational materials and equipment to serve gifted students.

Public School Transportation

School districts are reimbursed for some of the cost of transporting pupils between their home and school. The reimbursement formula is two-pronged: it takes into account mileage and excess costs. The formula provides 37.87 cents for each mile traveled, plus 33.87 percent of the difference between

the district's current operating expenditures and the mileage allowance. "Current operating expenditures" includes items such as motor fuel and oil, vehicle maintenance costs, equipment, facilities, driver employment costs, and insurance. Districts are not eligible for reimbursement for the cost of purchasing buses or for field trips.

The law guarantees that no district will receive less in any given year than it was entitled to receive in the prior year. However, the law also applies a cap of 90 percent of district current operating expenditures. For FY 2001-02, the General Assembly appropriated \$38.4 million for the transportation program. Each district's funding is prorated if the appropriation is less than the required amount.

Vocational Education

Unlike the school finance act and the other specific-purpose programs discussed in this booklet, which are administered by the Colorado Department of Education, the vocational education program is administered by the State Board for Community Colleges and Occupational Education. Vocational education courses are designed to provide students with entry-level occupational skills and knowledge required by business and industry. Any school district conducting approved vocational education courses is entitled to funding from moneys appropriated by the General Assembly.

Vocational education aid is disbursed to districts according to the full-time equivalent (FTE) cost of a program. The state provides funding for instructional personnel, contracted educational services, books and supplies, and equipment. Each district is required to pay its program costs per FTE at 70 percent of its per pupil operating revenue (school finance act revenue per pupil minus \$248). For costs exceeding 70 percent, the state pays 80 percent of the first \$1,250 per FTE and 50 percent of any additional costs above the initial \$1,250 level. If the state appropriation is less than the amount required by the

funding formula, district allocations are prorated proportionally. The FY 2001-02 appropriation for this program is \$18.5 million.

English Language Proficiency

The English Language Proficiency Act (ELPA) provides financial assistance to districts with students whose dominant language is not English. Districts are required to identify, assess, and provide programs for students in the following classifications:

- (a) students who do not comprehend or speak any English;
- (b) students who comprehend or speak some English but whose predominant language is not English; and
- (c) students who comprehend and speak English and at least one other language, whose dominant language is difficult to determine, and who score at or below average on state or national tests or below an acceptable level on a state-developed test.

ELPA funding is disbursed to districts for up to two years for each participating student. The state appropriation for this program for FY 2001-02 is \$3.3 million. About \$2.6 million of this appropriation is distributed to districts with students in categories (a) and (b). The remainder is distributed to districts with students in category (c). The amount of money each district receives is calculated by dividing students in categories (a) and (b) and students in category (c) by the respective portions of the appropriation.

Small Attendance Centers

The state provides additional funding for school districts that operate small attendance centers, which are defined as

schools with less than 200 pupils that are at least 20 miles from a similar school in the same district. Eligible districts receive 35 percent of the difference between the district's per pupil funding and the per pupil funding the school would have received if it was a separate school district. A smoothing factor phases out funding for schools with more than 200 pupils. An appropriation of \$841,013 was made for this program in FY 2001-02. Last year, funding was distributed to 15 schools in 11 districts across the state.

Expelled and At-risk Student Programs

For FY 2001-02, the General Assembly appropriated \$5.3 million to the Department of Education to distribute as grants for programs to serve expelled and at-risk students. The department may distribute the moneys to school districts, charter schools, public alternative schools, non-parochial private schools whose programs have been approved by the State Board of Education, boards of cooperative services, and pilot schools under contract with the state board to serve expelled and at-risk students.

In awarding grants, the state board must consider, among other issues, the quality and cost-effectiveness of the services to be provided, the demonstrated effectiveness of services funded by previous grants to an applicant, and the number of students receiving services. Forty-five percent of the appropriation must be awarded to applicants who provide services to students from more than one school district.

Grants for In-school and In-home Suspensions

Public schools, or any public or private agency operating in conjunction with a public school, are eligible to receive grants to provide programs to students who are suspended from participation in regular school activities but who continue to receive instruction either at home or at school. Any single grant cannot exceed \$25,000 per year, and grants are provided for a

two-year period. By law, the total amount of grants in any one year is limited to \$500,000. The appropriation for FY 2001-02 is \$497,957.

Comprehensive Health Education

School districts and boards of cooperative services can receive grants to provide a local comprehensive health education program, a component of which must be a law-related education program to reduce the incidence of gang involvement and substance abuse. The grant program receives 50 percent of moneys appropriated but not spent for school finance, although the money must be appropriated by the General Assembly. For FY 2001-02, the General Assembly appropriated \$600,000.

GRANT PROGRAMS AND OTHER DISTRIBUTIONS

In addition to the categorical programs delineated in the state constitution, the state distributes aid to school districts for a variety of other programs. Some of these programs are grant programs whereby school districts or schools who meet eligibility criteria apply for the available money. For other programs, money is distributed by formula, either to all districts or to qualifying districts. The following paragraphs briefly describe these programs.

Read to Achieve

Schools may apply for grants to fund intensive reading programs for second and third grade pupils and pupils between the third and fourth grades whose literacy and reading skills are below grade level. Grants may be awarded for programs such as reading academies, after school literacy programs, summer school clinics, one-on-one or group tutoring services, and extended-day reading programs. The number of second and third grade pupils reading below grade

level, the proven success of a proposed reading program, and the per pupil cost of a program are among the factors taken into account in selecting grant recipients. For FY 2001-02, The General Assembly appropriated \$17.6 million for read-to-achieve grants. The source of funding for the read-to-achieve program is the Tobacco Litigation Settlement Cash Fund.

Summer School Grant Program

Districts may apply to the Department of Education for funding under the summer school grant program, and each applying district receives \$100 for each student enrolled in the program. Summer school reading programs must be designed to provide intensive literacy and reading comprehension education services to students who have scored at the unsatisfactory proficiency level on the third or fourth grade reading CSAP. For FY 2001-02, \$945,800 is appropriated from the State Education Fund for this program.

State Match for National School Lunch Act

For FY 2001-02, the General Assembly appropriated \$2.5 million to provide the match that the federal government requires to receive funding under the National School Lunch Act. The money provided by the state can be used only for the school lunch program and cannot supplant any money currently provided by a school district from its general fund.

Teacher Development

Schools may apply for two-year grants of up to \$20,000 to assist teachers in improving their classroom teaching skills. For example, grant money can be used to set time aside for teachers to meet to review assignments and lesson plans and provide feedback to one another, or to pay for on-site training, observation and evaluation by recognized experts in instructional strategies and techniques. A school applying for

a grant must provide the Department of Education and its local school board with the goals the school expects to achieve, the school's plan for measuring success, and research that demonstrates the effectiveness of the proposed teacher development activities. The General Assembly appropriated \$2 million in FY 2001-02 for the teacher development grant program.

School Improvement Grants

The school improvement grant program provides money to schools rated as "unsatisfactory" to implement school improvement plans. It provides two-year grants of \$75,000 for elementary schools, \$100,000 for middle or junior high schools, and \$125,000 for high schools. Receipt of a grant is contingent upon the local board submitting a school improvement plan to the State Board of Education. Under the program, a school receives an additional \$25,000 in the second year of the program if it improves by at least half a point from the standard deviation over the preceding year's total score. The General Assembly appropriated \$2.9 million from the State Education Fund for the program in FY 2001-02. This two-year program expires July 1, 2003.

Charter School Capital Construction

The General Assembly appropriated \$5.3 million from the State Education Fund for charter school capital construction in FY 2001-02. A charter school qualifies for money if it will receive funding from a district for the budget year. In addition, the proposed budget for the charter school must indicate that the school will spend more than three percent of its operating revenue for capital construction in the budget year or a charter school must have spent more than three percent of its operating revenue for capital construction in the second year preceding the applicable budget year. The amount that each charter school receives is equal to the number of pupils enrolled in the charter school multiplied by

130 percent of the minimum transfer for capital reserve/risk management, or \$322 per pupil in FY 2001-02.

Purchase of New Textbooks

The General Assembly appropriated \$14.1 million from the State Education Fund for FY 2001-02 to distribute to school districts to purchase new textbooks. In FY 2001-02, each district receives \$20 per student for this purpose; in FY 2002-03, the amount increases to \$21 per student. Each school district is required to adopt a plan on the use of the money; moneys must first be used to provide up-to-date textbooks in reading, writing, math, science.

Teacher Pay Incentives

The teacher pay incentive program is a four-year grant program for teachers at public schools that receive an academic performance rating of "low" or "unsatisfactory." The grant money can only be used to provide bonuses (or associated costs) to reward outstanding performance, recruit or retain teachers, or defray housing costs. The program provides additional money to schools that receive a "significant improvement" or "improvement" rating after the first year of the four-year program. Both the basic grant money and the additional money are allocated to schools on a per pupil basis by dividing the appropriation by the total number of students enrolled in all eligible schools. For FY 2001-02, the General Assembly appropriated \$12.6 million from the State Education Fund for this program, which expires July 1, 2005.

Science and Technology Education Center Grants

The science and technology education center grant program provides development and operating moneys to nonprofit science and technology education centers that provide science and technology education activities, materials,

and educational workshops for students and their teachers. The amount of a grant under this program is limited to \$500,000 for new center and \$200,000 for an operating center. Any center that receives a grant is required to match the amount of a state grant. This program expires July 1, 2011.

PROGRAMS FUNDED THROUGH THE FINANCE ACT

Two programs are created for a discrete group of students; however, funding for the programs is allocated through the school finance act. Students are counted under the act and therefore receive the district per pupil funding allocation for each pupil. The two programs are the Colorado Preschool Program and full-day kindergarten for at-risk youngsters.

Colorado Preschool Program

The Colorado Preschool Program, which has been in operation since 1989, serves four- and five-year-old children who lack overall learning readiness, who are in need of language development, or who participate in state programs for neglected or dependent children. A school district may provide the program itself, or contract with a Head Start or local child care agency to provide all or a portion of the program. School districts must meet specific state requirements regarding class size, parental involvement, and teacher training and planning to participate in the program.

The Colorado Preschool Program is funded through the school finance act. Children participating in the program are counted as half-day pupils. Current law limits the number of children that may participate in the program to 10,050; 1,000 of these openings are reserved for full-day kindergarten in the 2001-02 budget year. In FY 2001-02, nearly \$26.5 million of school finance total program is attributable to this particular

program. School districts must deposit revenue received for these children in the district preschool program fund.

Full-day Kindergarten

Beginning in FY 2001-02, school districts may offer and receive funding for full-day kindergarten programs for students who attend a school that received an academic performance rating of "unsatisfactory" for the previous school year. A school district can provide the program itself or contract with other private or public entities to provide the program. For FY 2001-02, the General Assembly appropriated \$2.9 million for this program, which is funded through the school finance act. The authorization for this program ends July 1, 2006.

GLOSSARY

Amendment 23: A constitutional amendment adopted in 2000 that sets minimum levels of increase in the statewide base per pupil funding amount and in categorical program funding and sets a minimum increase in the state General Fund appropriation for school finance. It also creates the State Education Fund and earmarks a portion of income tax revenue for the fund. Amendment 23 is codified as Article IX, Section 17, Colorado Constitution.

Assessed Value: The taxable value of property as determined by a tax assessor or government agency. Property taxes are paid on the basis of a property's assessed valuation, which represents only a fraction of a property's market value. (See p. 9)

At-Risk Pupils: Students that are eligible for the federal free lunch program because they come from families with incomes below a certain level, and some students with limited English skills. The act provides additional funding based on the number of at-risk pupils enrolled in each district. (See pp. 6, 26)

At-Risk Factor: A factor used to compute the additional amount of funding a district receives for its at-risk pupils. Each district starts with an at-risk factor of 11.5 percent. Districts with more than the statewide average proportion of at-risk pupils receive an at-risk factor of 11.5 percent plus three-tenths of one percentage point—0.36 percentage point for a district with a pupil count greater than 50,000—for every percentage point that the district's proportion exceeds the statewide average, up to 30 percent. (See pp. 8, 26)

Base Funding Amount: See Statewide Base Per Pupil Funding Amount. (See pp. 3, 44)

Bonded Indebtedness: Obligations of a school district to make payments on a loan, generally for major capital construction projects. With voter approval, districts can issue bonded debt and impose a mill levy to repay the debt over time. (See p. 19)

Budget Year: Same as a fiscal year, the period beginning on July 1 of each year and ending on the following June 30.

Capital Outlay: Money spent to acquire fixed assets which can be expected to last for more than one year. Fixed assets include land, buildings, machinery, and furniture.

Capital Reserve Fund: A fund used by school districts for long-term capital outlay expenditures. Districts can only use the capital reserve fund to acquire land and buildings, construct new buildings or additions to buildings, purchase equipment and furnishings, alter or improve existing buildings when the cost exceeds \$2,500, acquire school buses or other equipment with a per unit cost of at least \$1,000, enter into long-term lease agreements, or purchase software licenses that cost at least \$1,000. Districts must allocate a minimum of \$248 per pupil between the capital reserve fund or a risk management fund in FY 2001-02, unless they have at least five-years' worth of transfers already in the fund. (See p. 16)

Categorical Programs: Specific-purpose programs that are funded separately from a district's total program funding under the school finance act and are identified in the state constitution. Examples include vocational education, special education, and transportation. (See p. 14, 28)

Charter School: A public school which operates under contract with a public school district.

Constitutional Spending Limit: The maximum allowable change in a school district's spending from one year to the next. The limit for school districts is equal to the percentage change in a district's enrollment plus the Denver-Boulder inflation rate in the prior calendar year. (See pp. 10, 14)

Cost-of-Living Factor: One of the three main factors used in calculating a district's per pupil funding. The cost-of-living factor reflects the relative differences among the state's 178 districts in the costs of housing, goods, and services for the regions in which districts are located. (See pp. 3, 24)

District Per Pupil Funding: The amount that results from combining the statewide base with the components of the formula. A district's per pupil funding is multiplied by its pupil count to determine funding, before accounting for at-risk. (See p. 24)

Enrollment: The number of pupils enrolled on October 1 within the budget year. (See p. 2)

Equalization Aid: State funding provided to equalize the property wealth of districts. (See p. 11)

Hold Harmless District: A district whose formula per pupil funding in the first year of the 1994 school finance act would have declined from the prior year's level. (See p. 18)

"J" Curve: A term used to describe the shape resulting from school district size factors. See Size Factor. (See pp. 5, 25)

Local Share: The portion of a district's total program contributed directly by local taxpayers of the district. A district's local share includes revenue from property taxes and specific ownership taxes. (See p. 9)

Maximum Increase in Per Pupil Funding: The statutory cap which limits annual increases in per pupil funding to 25 percent. (See p. 14)

Mill Levy: A property tax rate based on dollars per thousand of assessed valuation. One mill is the same as one tenth of one percent (.001). Thus, one mill will generate \$1 when levied on \$1,000 of a property's assessed value. (See p. 9)

Minimum Per Pupil Funding: A minimum funding level guaranteed to each district. In FY 2001-02, the law guarantees \$5,100 per pupil. (See p. 13)

Minimum State Aid District: A district that can pay for its entire total program from local property and specific ownership taxes and, thus, only receives the minimum amount of state aid per pupil. For FY 2001-02, each district in the state receives at least \$84.31 per pupil. (See p. 11)

Nonpersonnel Costs Factor: A percentage representing the difference between 100 percent and a district's personnel costs factor. (See p. 4)

Override: Local voter-approved property tax revenue in excess of total program as defined under the act. Overrides are capped at the greater of 20 percent of a district's total program or \$200,000. (See p. 17)

Personnel Costs Factor: One of the three main factors used in calculating a district's per pupil funding. The personnel costs factor is a percentage which represents the estimated portion of a district's budget which is attributed to personnel costs. It is formula-driven and differs by district based on enrollment. (See pp. 4, 25)

Per Pupil Funding: The amount that results from combining the statewide base with the components of the formula. A district's per pupil funding is multiplied by its pupil count to determine funding, before accounting for at-risk. (See p. 24)

Per Pupil Operating Revenues/PPOR: A district's total program divided by its funded pupil count, minus the minimum amount per pupil required to be transferred for the capital reserve fund or a risk management fund. In FY 2001-02, a district's PPOR is its total per pupil funding minus \$248.

Property Tax: A local tax that is calculated by applying a mill levy to assessed value. Revenue from the property tax represents the primary source of local funding for K-12 public education. (See p. 9)

Pupil Count/Funded Pupil Count: The number of pupils for which a school district receives funding under the school finance act. For funding purposes, pupils are counted on October 1 within the applicable budget year. (See p. 2)

Size Factor: One of the three main factors used in calculating a district's per pupil funding. The size factor is designed to compensate districts for the cost pressures of economies of scale. It is formula-driven and based on enrollment. (See pp. 5, 25)

Specific Ownership Tax: A tax paid annually on motor vehicles instead of property taxes. Specific ownership taxes are part of a district's local contribution to school funding. (See p. 10)

Small Attendance Center: A school of less than 200 students that is located more than 20 miles from a similar school in the same district. Small attendance centers are eligible for categorical program funding. (See p. 31)

State Aid: Funding provided by the state under the school finance act. State aid is the difference between a total program and local school finance revenue sources. (See p. 11)

Statewide Base Per Pupil Funding Amount: The dollar amount to which the factors are applied in determining each district's per pupil funding level. Each district receives the same base per pupil funding amount. For FY 2001-02, the base is \$4,202. (See p. 3)

Total Per Pupil Funding: Per pupil funding multiplied by the number of pupils plus at-risk funding, divided by the number of pupils.

Total Program: Per pupil funding multiplied by the number of pupils, plus at-risk funding. (See pp. 1, 24)