

RE-1 VALLEY SCHOOLS

Colorado school funding facing 'scary' situation

School finance expert gives presentation

By Callie Jones

Journal-Advocate news editor
Journal Advocate

Posted: Fri Mar 24 07:03:07 MDT 2017

Colorado school funding is headed for "a scary situation" and Glenn Gustafson, Colorado Springs District 11 deputy superintendent/chief finance officer, is on a mission to educate people. He has been traveling the state giving school finance presentations to various organizations and districts, including the RE-1 Valley Board of Education on Monday.

"It's particularly timely, because of this challenge the state budget has in terms of funding schools in Colorado and it's really kind of a scary situation when you see it," said Gustafson, who has been involved in school finance for 25 years as a CPA.

School finance formula

Funding for Colorado school districts comes from property taxes, specific ownership taxes and state equalization. The more local revenue (property and specific ownership taxes) a district receives the less state equalization funding it will get.

Every district starts with the same base funding, \$6,367.90, which is approved by the legislature each year in the School Finance Act. Amendment 23 requires the state to raise the base funding by inflation as measured by the Denver/Boulder CPI; inflation is about 2.8 percent.

On top of that there are factors, such as the cost of living factor (the more expensive it is to live in your community, the more money you get), district size factor (the bigger your district the less you get), personnel cost factor, non-personnel costs, the at-risk factor and the negative factor, a method the legislature has used to reduce the Amendment 23-mandated increase in school funding, which costs districts about \$1,000 per pupil. It has caused RE-1 specifically to lose approximately \$2 million every year since 2010, or about \$15 million total.

Additionally, districts get categorical funding for the English Language Proficiency Act, gifted and talented students, small attendance centers, special education, transportation and vocational education.

Gustafson noted one of the issues with Colorado school funding is the state's school finance act has not changed since 1994.

"School finance acts are counted like in dog years — this school finance act is over 100 years old. The one previous to this only lasted six years, so the fact that we've gone from 1994 to 2017 with the same school finance act shows you how outdated it is and it severely underfunds at-risk kids, English language learners and special needs children," he said. "Everybody recognizes that problem; they just don't know how to fix it, at the capitol."

TABOR and the Gallagher Amendment

Gustafson also talked about TABOR (Taxpayers Bill of Rights), passed by voters in 1992, and the Gallagher Amendment, which was enacted in 1982. TABOR limits the growth of state revenue and spending, so the state budget cannot go up by more than inflation plus population growth; last year inflation was 1.2 percent.

"That means that even when the recession happened and revenues dropped down, because people weren't working and they weren't paying as much in taxes, they can't immediately bounce back up, because that sets a new floor under the TABOR limit," Gustafson said.

According to a Chalkbeat Colorado article, "Colorado schools face an uphill battle as lawmakers wrestle with budget," the state is going to be over the TABOR limit in 2017-18 and will need to save between \$135 million and \$256 million for taxpayer refunds.

The Gallagher Amendment requires the state to maintain a 45 percent to 55 percent ratio between revenue collected from residential property and revenue collected from commercial, industrial and agricultural property. Historically, residential property values have always risen faster than the other property values, but now housing prices are skyrocketing in Denver and Boulder, which means the residential assessment ratio will need to be lowered to offset that.

"Next year, because of the huge boom in house prices in Denver, we're going to see the largest percentage decrease in the residential assessment ratio since its inception in 1986," Gustafson said. "The reason that's important is less residential property

taxes means more of the cost of K-12 education must be born by the state."

In the mid 1980s, 57 percent of Colorado school funding came from local property taxes and 43 percent came from the state. However, because of the combination of TABOR and Gallagher, in 2017-18 less than 30 percent of school funding will come from local property taxes.

Rising expenditures

School districts are struggling not only with revenues, but the expenditures as well. In recent years Colorado passed five significant bills that affect public education — Senate Bills 163 (Education Accountability Act of 2009), 191 (teacher evaluation law) and 212 (Colorado Achievement Plan for Kids), the Colorado READ Act and legislation regarding testing requirements and standards. All of these cost money to implement.

Additionally, district have lost ground with salaries and benefits, physical plants and school grounds are aging, vehicle fleets are aging, technology is becoming more obsolete, PERA is increasing, healthcare costs are increasing, districts reserves are decreasing and safety and security requirements are increasing.

Healthcare and school funding

The percent of the state budget spent on K-12 education, as well as higher education, is shrinking as the state must spend more on healthcare. In 2015-16, healthcare (Medicaid) was 26 percent of the state budget and K-12 education was 37 percent, whereas in 2006-07 healthcare was 20 percent and K-12 education was 42 percent.

"Medicaid is getting bigger and bigger, K-12 and everything else is getting smaller and smaller," Gustafson said, noting 10 years ago, one out of 12 Colorado citizens received some sort of Medicaid services and now it's one out of five.

A forecast he shared from a state economist shows that by 2024-25 Medicaid is expected to go up by 213.9 percent and K-12 education by 120.3, both outpacing the revenue available in the state budget, which is only expected to go up by 82.3 percent.

Gustafson explained that as Baby Boomers, which are 25 percent of the population in Colorado, age out of the system, they earn less money and they spend less on taxes.

"As that happens, until the millennials catch up with us, there's going to be less revenue available in the state budget," he said.

Hitting the base

Right now, Colorado is about \$3,000 below the national average in per pupil spending and is losing ground compared to its neighboring states, in part due to the negative factor, which started at \$381 million in 2010-11, rose to \$1.004 billion in 2013-14, then dropped some to \$830 million in 2015-16 and 2016-17, but is expected to go back up to \$1 billion for 2017-18.

Gustafson explained the "scary situation" is that there is only \$900 million left before the state will have dropped every school district down to base funding.

"That may sound like a lot of money, but they're going to hit it next year for at least \$165 million in one year, so it's going to go fast when it starts happening," he said, pointing out that by June 30, 2020, it's predicted that there will be no more negative factor left, every school district in the state will be funded at the base, \$6,367.90. Right now, RE-1's per pupil funding is about \$7,000, that means it will be looking at another \$700 per pupil loss over a four-year stretch, which with RE-1 having about 2,000 students is a total of about \$1.4 million of recurring money that will come out of the district's budget.

"Every district is facing the same thing; for us, it's in the millions and millions of dollars," Gustafson said.

While larger districts will hit the base funding level first, because they get less money from the state, he has no doubt that eventually every district will hit that level, based on conversations he's had with the Joint Budget Committee, the education committee, Colorado State Board of Education and the Colorado Department of Education.

"They all agree, yep, you're right Glenn, we know it's coming, we just haven't seen it modeled before, it's going to happen," Gustafson said. "My question is, all those people in Denver put their hand on a Bible and swore that they would uphold the Constitution of the state of Colorado, so my question is, are you going to break TABOR first or are you going to break schools first?"

There is a small silver lining in that once districts get to the base, which may take four or five years, the state has to increase the district's funding by inflation every year thereafter.

"Unfortunately that pain of getting to the base is going to be awful and it's not like you bounce back, you'll just gently start growing again at the rate of inflation," Gustafson said.

Callie Jones: 970-526-9286, cjones@journal-advocate.com

Close Window

Send To Printer