

MEMORANDUM



JOINT BUDGET COMMITTEE

TO Joint Budget Committee Members
FROM Craig Harper, JBC Staff (303-866-3481)
DATE March 24, 2021
SUBJECT Staff Comeback - FY 2020-21 Long Bill Recommendations for School Finance

The Committee took action on the Department of Education's FY 2021-22 budget request on March 1, 2021. However, staff is returning to the Committee with a revised recommendation for the FY 2021-22 Long Bill for the State Share of Districts' Total Program Funding based on the Committee's adoption of the Legislative Council Staff March 2021 Revenue Forecast (LCS forecast) for balancing purposes.

FY 2021-22 LONG BILL RECOMMENDATION FOR TOTAL PROGRAM

During figure setting, the Committee approved a framework and preliminary recommendation to establish the FY 2021-22 Long Bill appropriation for the state share of districts' total program funding. As a reminder, that framework includes the following assumptions:

- *Budget Stabilization Factor:* Current law (as enacted in H.B. 20-1418 (School Finance)) will not allow the budget stabilization factor to increase as a dollar amount from FY 2020-21 to FY 2021-22. Thus, the staff recommendation *for the Long Bill appropriation* holds the budget stabilization factor constant at \$1,052,661,912 in FY 2021-22. Staff assumes that any changes to that amount (upward or downward) will be enacted in the annual School Finance Bill.
- *State Education Fund Balance:* As discussed during figure setting, the staff recommendation targets a year-end balance of \$460.0 million in the State Education Fund at the end of FY 2021-22 (as requested by the Governor). The recommendation for total program funding incorporates the Committee-approved amounts for all other Long Bill appropriations from the State Education Fund. Thus, any additional spending from the State Education Fund (outside of the Long Bill) would decrease the fund balance below that target. Staff recommends maintaining that ending balance target *at least* through FY 2021-22, and preferably beyond that time to provide an additional reserve for education funding.
- *State Public School Fund Balance:* Based on the volatility of two of the major revenue sources for the State Public School Fund (federal mineral lease revenues and marijuana taxes), the staff recommendation targets a fund balance of approximately \$44.5 million at the end of FY 2021-22. That targeted fund balance includes: (1) an estimated \$39.5 million in marijuana sales tax revenue expected to be deposited in the fund in FY 2021-22 and available for appropriation in FY 2022-23; and (2) a buffer of \$5.0 million to account for potential forecast error in FY 2021-22.
- *ASCENT Slots:* The Committee approved a continuation level of 500 slots for the Accelerating Students Through Concurrent Enrollment (ASCENT) Program, with no change from the FY 2020-21 appropriation. Increasing the number of slots would increase the pupil count and increase the required appropriation (by \$7,624 per pupil). Conversely, decreasing the number of slots would decrease the pupil count and the necessary appropriation accordingly. If the General Assembly changes the dollar value of the budget stabilization factor through the School Finance Bill, then the cost per ASCENT slot would change accordingly.

CHANGES BASED ON THE FORECAST

Staff's preliminary recommendation in the figure setting document was based on the Office of State Planning and Budgeting December 2020 Revenue Forecast of revenues for the State Education Fund and the State Public School Fund (with targeted ending balances in each fund). The March 2021 LCS forecast anticipates increased revenues for both of those funds, which will reduce the pressure on the General Fund for the Long Bill appropriation for school finance.

- The March 2021 LCS forecast anticipates increased income tax deposits to the State Education Fund (relative to the December 2020 OSPB forecast) for both years, including increases of \$45.8 million in FY 2020-21 and \$41.3 million in FY 2021-22. The forecast also includes smaller increases in anticipated revenues from with nicotine tax collections associated with H.B. 20-1427 (Cigarette Tobacco & Nicotine Products Taxes), for a total of approximately \$11.4 million between BY 2020-21 and FY 2021-22.
- The March 2021 LCS forecast also anticipates increases for the major revenue sources for the State Public School Fund relative to the amounts assumed at figure setting, including increases associated with the one-time diversion of State Land Board School Trust revenues to the fund in FY 2020-21 as well as increases in both federal mineral lease and marijuana sales tax revenues.

As a result, the revised staff recommendation for the FY 2021-22 Long Bill represents a reduction of \$112.4 million General Fund below the preliminary recommendation approved during figure setting.

FY 2021-22 STAFF RECOMMENDATION (LONG BILL)

Based on the framework outlined above and incorporating the March 2021 LCS forecast, staff recommends approving an appropriation of \$4,342,793,552 total funds for the State Share of Districts' Total Program Funding line item in FY 2021-22 (the total is unchanged from the preliminary recommendation). The recommendation includes the following fund sources:

- **\$3,562,105,133 General Fund.** The revised recommendation represents a decrease of \$190.8 million General Fund below the FY 2020-21 appropriation and \$112.4 million below the preliminary staff recommendation from figure setting. The recommendation is also \$571.7 million below the Governor's request, based largely on the Governor's proposal to buy down the budget stabilization factor (which staff assumes the General Assembly would accomplish through the School Finance Bill if revenues allow).
- **\$587,390,325 cash funds from the State Education Fund.** The recommendation represents an increase of \$289.4 million above the FY 2020-21 appropriation and \$87.6 million above the preliminary staff recommendation for FY 2021-22, driven by improved revenue expectations. As noted above, the recommendation continues to target a balance of \$460.0 million at the end of FY 2021-22.
- **\$193,298,094 cash funds from the State Public School Fund.** The recommendation represents an increase of \$19.5 million above the FY 2020-21 appropriation and \$24.7 million above the preliminary staff recommendation, again driven by anticipated increases in revenues. The Committee should note that the appropriation does include one-time funding resulting from the diversion of additional marijuana excise taxes and State Land Board School Trust revenues to the State Public School Fund in FY 2020-21 (pursuant to H.B. 20-1418) and that the fund will not be able to sustain that level of appropriation in subsequent years.

The following table shows the components of the staff recommendation for FY 2021-22 assuming a constant budget stabilization factor and based on the framework discussed during figure setting. As shown in the table, maintaining the budget stabilization factor at \$1.05 billion would increase projected

statewide average per pupil funding from \$8,123 in FY 2020-21 to \$8,317 in FY 2021-22, an increase of \$194 per pupil (2.4 percent).

FY 2021-22 TOTAL PROGRAM FUNDING – REVISED RECOMMENDATION					
	FY 2020-21 APPROPRIATION (WITH MID-YEAR RECOMMENDATION)	GOVERNOR'S REVISED (JANUARY 15) REQUEST	PRELIMINARY STAFF RECOMMENDATION (FIGURE SETTING)	REVISED LONG BILL RECOMMENDATION (MARCH LCS)	CHANGE FROM PRELIMINARY RECOMM.
Funded Pupil Count	891,119	888,512	888,557	888,557	0
Inflation Rate	1.9%	2.0%	2.0%	2.0%	0.0%
Statewide Base Per Pupil Funding	\$7,084	\$7,225.28	\$7,225.28	\$7,225.28	\$0
Total Program Funding					
Total Program before Budget Stab. Factor	\$8,291,005,431	\$8,442,509,365	\$8,442,870,876	\$8,442,870,876	\$0
Budget Stabilization Factor	(1,052,661,912)	(572,396,894)	(1,052,661,912)	(1,052,661,912)	0
<i>Budget Stabilization Factor as Percentage</i>	<i>-12.70%</i>	<i>-6.78%</i>	<i>-12.47%</i>	<i>-12.47%</i>	<i>0%</i>
Adjusted Total Program	\$7,238,343,519	\$7,870,112,471	\$7,390,208,964	\$7,390,208,964	0
Statewide Average Per Pupil	\$8,123	\$8,858	\$8,317	\$8,317	0
Local And State Shares					
Local Share	<u>\$3,013,645,502</u>	<u>\$3,047,415,412</u>	<u>\$3,047,415,412</u>	<u>\$3,047,415,412</u>	<u>\$0</u>
Property Tax	2,809,928,968	2,852,388,269	2,852,388,269	2,852,388,269	0
Specific Ownership Tax	203,716,534	195,027,143	195,027,143	195,027,143	0
State Share	<u>\$4,224,698,017</u>	<u>\$4,822,697,059</u>	<u>\$4,342,793,552</u>	<u>\$4,342,793,552</u>	<u>(0)</u>
General Fund	3,752,935,919	4,133,824,788	3,674,461,332	3,562,105,133	(112,356,199)
Cash Funds (SEF)	297,944,140	534,473,258	499,783,947	587,390,325	87,606,378
Cash Funds (SPSF)	173,817,958	154,399,013	168,548,273	193,298,094	24,749,821
Annual General Fund Increase		380,888,869	(\$78,474,587)	(190,830,786)	
Statutory Change Required		Yes	Yes	Yes	

The Committee should note that the staff recommendation for the Long Bill would spend both the State Education Fund and the State Public School Fund down to the funds' respective target balances. Thus, if the General Assembly intends to reduce the dollar value of the budget stabilization factor in FY 2021-22 then staff assumes that the appropriation to do so with state funding would come from the General Fund.

- For example, based on current projections of the cost of school finance (and barring changes in local revenues), staff anticipates that reducing the budget stabilization factor to \$572.4 million as requested by the Governor would require an additional \$480.3 million General Fund.
- Staff assumes that the General Assembly would make such an appropriation through the annual School Finance Bill. However, if the General Assembly intends to make a reduction of that size in the budget stabilization factor then staff would recommend that the Committee consider “setting aside” sufficient General Fund in the budget balancing process.

Finally, staff requests permission to make technical adjustments to the Long Bill appropriation to reflect revisions in local revenues and to maintain the targeted ending balances for both cash funds as necessary based on technical adjustments for common policies, indirect cost adjustments, and subsequent Committee decisions during budget balancing.