

All Leadership Meeting
Legislative and Budget Update

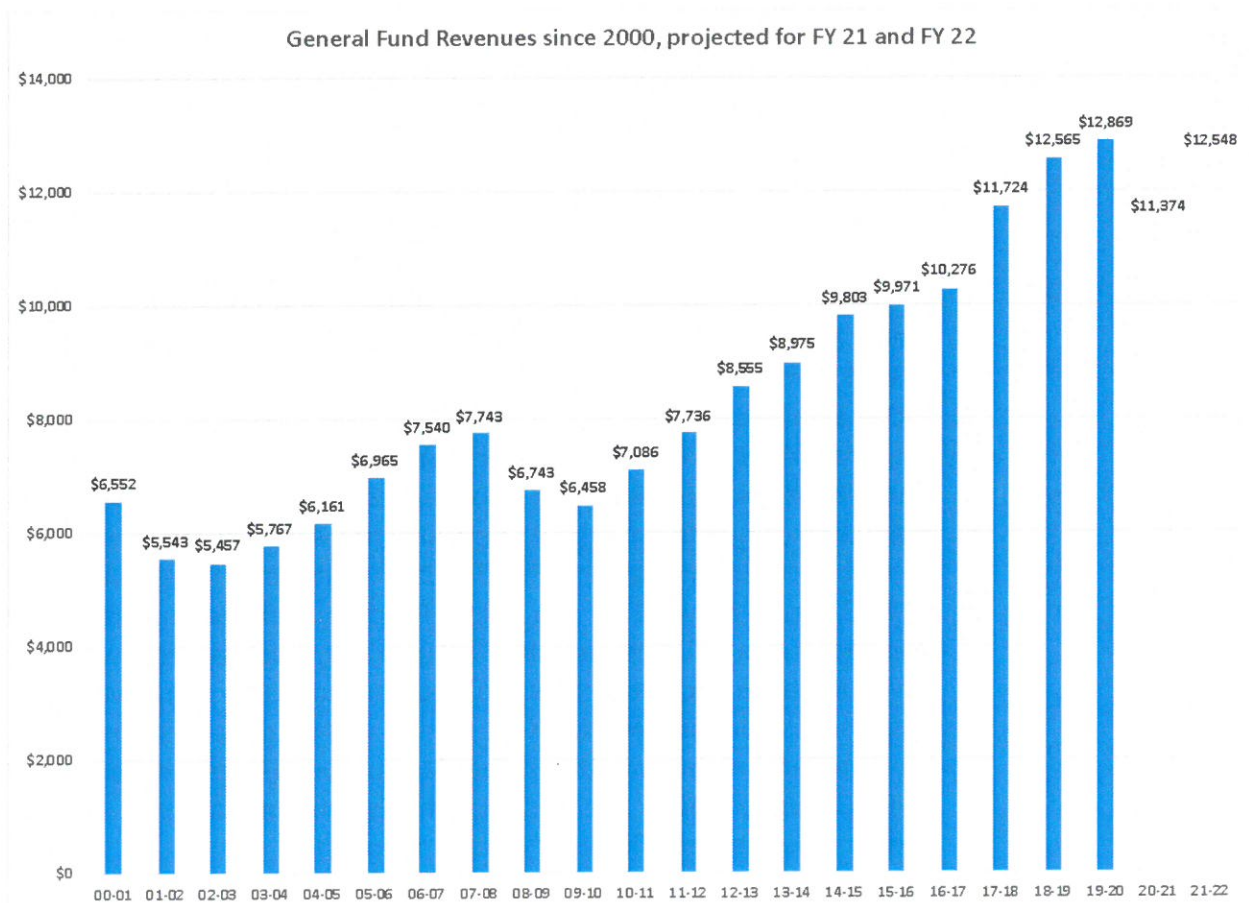
Budget Issues Impacting School Finance

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School Finance for both FY 2020-21 and FY 2021-22 will be impacted by a variety of factors. Provided below is a listing of the major issues.

1. **State Budget.** The FY 2020-21 budget was balanced through a combination of budget reductions and one-time revenues and transfers of cash into the General Fund. The state will have to determine how to replace those one-time revenues and cash transfers or adopt further reductions. Based on the September 18 forecast, the Governor's budget director estimated a budget shortfall of \$1.6 billion for FY 2021-22.
2. **State Revenues.**
It will take Colorado a number of years for the General Fund to return to its FY 2019-20 levels. The chart below shows Colorado's General Fund revenue, and how quickly the state "bounced back" from prior downturns.



The next forecast will be released on Friday, December 18.

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3. Federal Relief.

There is still a chance for federal relief for states – either before or after the election.

4. Single Day Count.

In a typical year, the October student count would be used to modify each district's enrollment and enrollment of at-risk students as a mid-year adjustment. However, there are likely many districts facing significant student declines in FY 2020-21. At this time, there is no mechanism for CDE to modify the student count process.

5. Tax Collections.

The School Finance Act assumes a level of property tax collection within each district each year. Given the economic disruptions caused by the Coronavirus pandemic, however, there is some concern that some taxpayers may not be able to pay their property taxes. In the past, certain small districts have requested state financial relief when major industrial operations closed mid-year. However, it is unknown how the state would respond if many districts faced property tax collection shortfalls late in the fiscal year.

6. Ballot Measures. Three ballot measures could impact state revenues, and thus the amount of state funding available for K-12 education.

- a. **Tobacco Tax Increase (Proposition EE)**. If passed, this proposal will increase General Fund revenues, and provide for certain required expenditures for different education programs. These include rural schools and preschool programs. The measure would also provide additional funding for the School Finance Total Program (\$50 million in FY 2020-21, \$120 million in FY 2021-22, and \$115 million in FY 2022-23).
- b. **Income Tax Reduction (Proposition 116)**, which would reduce the state's flat tax rate from 4.63 percent to 4.55 percent. If passed, this will reduce state General Fund revenues by \$203 million in FY 2020-21, and \$154 million in FY 2021-22.
- c. **Gallagher (Amendment B)**. If the Gallagher Amendment is not repealed, it is almost a certainty that the Residential Assessment Rate will decrease for FY 2021-22. In May 2020, the State Property Tax Administrator estimated a decrease from 7.15 percent to 5.88 percent. Such a drop would lower local revenues by a projected \$250 to \$400 million; the state will have to either increase its commitment for K-12 (which will be difficult in the current budget environment) or increase the Budget Stabilization (Negative) Factor. With Gallagher, once the Residential Assessment Rate has been lowered, it cannot be increased without a vote of the people.

Implications of Ballot Measures: The passage (or failure) of these three ballot measures will impact the "budget gap" for FY 2021-22.