

How Colorado Funds K-12 Capital Construction

State Level Funding:

School Finance Act money: In Colorado, revenue for construction, maintenance and renovation of schools had been left exclusively to local districts before 1988. In 1988 when Colorado passed the School Finance Act in part to equalize school spending statewide, districts were required to set aside a portion of their operating expenses, currently \$268 per pupil, in a capital and insurance reserve fund. Although instrumental in filling holes in district capital budgets, this amount is a tiny fraction of districts' total capital needs.

Credit enhancement to local districts: Allows bonds issued by local school districts to be guaranteed by the full faith and credit of the state thereby receiving lower interest rates. From 1991, when the program was created, to 2004, 320 debt obligations have been recorded with outstanding principal of over \$6 billion accounting for over 95% of all bonds passed during that period.

Low interest loan program: In 1996 Colorado voters passed a constitutional amendment that allowed the state to spend the interest earned on the State Public School Permanent Fund "to assist public schools in the State in providing necessary buildings, land, and equipment." These loans are administered through the state's Public School Capital Construction Grant Program (see below) and must be authorized by the State Board of Education and approved by a majority of voters in the local district applying for a loan. To date, no districts have applied and no loans have been made through this program.

Public School Capital Construction Grant Program: In 1998 parents of children in 6 Colorado school districts filed a lawsuit against the state arguing that the state had not fulfilled its constitutional responsibility to provide for the establishment and maintenance of a thorough and uniform system of free public schools (*Giardino versus the State Board of Education*). That suit was settled out of court when the state agreed to dedicate \$190 million of state General Fund money over the course of 11 years to address the most serious needs. However, the legislative bill enacting the settlement did not require any appropriation in years in which revenues do not meet a specified benchmark. Because of the recession, this condition was triggered in 2002 and every year since. As a result, to date, the state has dedicated only a fraction of the Giardino settlement amount to school building construction and renovation.

Funds from the Giardino lawsuit settlement go into the state's Public School Capital Construction Grant program which provides a limited amount of money to fund school capital projects. To date, the program has given out \$63,158,897 over five years—in addition to state General Fund revenue for the Giardino settlement, this amount includes State Education Fund revenue (see below), Lottery Revenue (see below) and some Federal funds. The program includes grants funded through (1) the School Capital Construction Expenditures Reserve,

(2) the School Construction and Renovation Fund and (3) the Contingency Reserve. In addition the program administers loans through the State Public School Permanent Fund (see above).

Funding Sources:

- General Fund Giardino settlement appropriations: The General Assembly is required by the Giardino settlement to appropriate \$190 million from the state's General Fund over the course of 11 years. The legislature fully funded this obligation in FY01 and FY02 but has not appropriated any General Fund money since—not in FY03, FY04 and FY05. The total amount of General Fund Giardino settlement money appropriated in the first five years, then, is \$15 million—falling short of its Giardino obligation by \$55 million.
- Lottery money: In 2000 Colorado voters passed Referendum E that dedicated lottery funds above the Great Outdoors Colorado cap to the state Contingency Reserve (in the State Public School Permanent Fund)¹. Those funds were then to be used to address health and safety capital construction issues in public schools. More than \$14.5 million has been distributed to this fund since 2002. However, instead of using the funds to supplement the General Fund Giardino commitment, the General Assembly has used lottery funds in place of General Fund revenue in FY02, FY03 and FY04.
- Charter School Capital Construction Match: In 2001 the legislature passed a bill that provided funding for charter school capital construction through the State Education Fund. This bill also required that the same amount of State Education Fund revenue applied to charter school capital construction be appropriated to the School Capital Construction Expenditure Reserve. Currently Charter schools receive \$5,000,000 annually from this law (see below). However, the match to the School Capital Construction Expenditure Reserve was used in place of the General Fund Giardino commitment in FY02 and was eliminated entirely in FY03 and FY04.

Programs Administered:

- The School Capital Construction Expenditure Reserve: The General Assembly is required to appropriate \$105 million from the state's General Fund into the School Capital Construction Expenditure Reserve as part of the Giardino settlement. This fund is the source of grants for health and safety capital spending. When originally established, grants from this fund did not require a district match. Currently, CDE requires a matching portion for grant awards although there is a process through which districts can apply for an exemption to this requirement.
- The School Construction and Renovation Fund: The General Assembly is required to appropriate \$85 million from the state's General Fund into the School Capital Construction Expenditure Reserve as part of the Giardino

¹ <http://www.coloradolottery.com/about/proceeds.cfm>

settlement. This fund is the source of matching grants to districts for capital projects².

Local District Funding (paid for by a property tax increase for district residents)
Temporary property tax increase (Special Building and Technology Fund): A district may ask its voters to increase property taxes by up to 10 mills for up to 3 years to acquire or construct schools or to purchase and install instructional and informational technology.

Voter approved local district bonds: by and large, the primary resource for capital construction and renewal in Colorado's 178 school districts is local bonds, with a concurrent mill levy increase to pay for the debt.

- **History**: Since 1982 local district voters have passed bonding measures 246 times, they have rejected bonding measures 129 times for a 22 year passage rate of 66%. Over this 22 year period local district bonds have raised a total of \$6,955,481,128 for capital investment statewide.
- **Limit**: Districts are limited in the amount they can raise through local district bonds. Bonded debt is capped at 20% of the district's total assessed value (or 25% for "high growth" districts³).⁴ Because the total amount of capital funds a district is able to raise is a function of the district's property wealth, the total amount of potential capital funds per pupil differs exponentially across districts with the wealthiest being able to ask for \$219,000 per pupil and the poorest only being allowed 1,100 per pupil—a difference of nearly 20,000%.

Mill Levy Overrides: Mill levy overrides are an increase in the property tax rate for a school district. Although override revenue can be used for operating expenses or capital expenses as the district sees fit they are most often used for operating, especially to supplement new operating expenses associated with new schools.

- **History**: Since 1988 local district voters have passed 106 of 185 proposed mill levy overrides for a passage rate of 57%. These measures raise an additional \$433,569,985 annually for the districts in which they have passed (collectively, statewide, not per district).
- **Limit**: Mill levy override revenue is limited to 20% of district "total program" revenue or \$200,000, whichever is greater⁵. In order to equalize per pupil

² The local district match can come from a district's operating budget (General Fund), a district's capital reserve or from a bond measure passed by the voters. According to CDE all of these options have been used by districts receiving grants.

³ According to CDE, there are 7 districts that meet this definition in FY05: Brighton, Vilas, Falcon, Edison, Branson (which is an entirely online district), Karval and Johnstown.

⁴ This limit is based on concern for the financial stability of the district and the district's bonds rather than on concerns about the degree of disparity that is acceptable between districts (which concern governs the mill levy override limit).

⁵ According to the School Finance Act of 1994, the state legislature determines the minimum funding allocated for each K-12 student. This is called the per-pupil base. The base is then adjusted for the following variables: cost of living, personnel costs and district size. This district-adjusted per-pupil amount

operating revenue in all districts statewide, the state supplements local revenue to ensure that, on a per pupil basis, district “total program” is roughly the same. The 20% cap on mill levy overrides ensures that district operating revenue cannot differ more than approximately 20% per pupil from the wealthiest to the poorest districts.

Charter School Capital Funding:

Grants from State Education Fund revenue: In 2001 the legislature passed a measure to allocate State Education Fund revenue to charter school capital construction. This year, FY05, the legislature appropriated 5,000,000 of the State Education Fund to charter school capital construction which revenue was allocated on a per pupil basis to every “qualifying” charter school.⁶ The per pupil amount this year is \$171. Over the period in which this program has been in place, the legislature has appropriated nearly \$24.3 million to charter school capital construction from the State Education Fund.

Grants from the state’s Public School Capital Construction Grant Program (see above): Charter schools can submit applications to the state’s grant program independently (i.e. they do not have to come from their districts) and be directly awarded grants from that program.

Bonds issued by the Colorado Educational and Cultural Facilities Authority: The Colorado Educational and Cultural Facilities Authority can issue bonds for capital construction on behalf of colleges, universities, charter schools and cultural entities. Although these are revenue bonds, not general obligation bonds, charter schools must simultaneously apply to the state’s credit enhancement program so that the bonds are guaranteed with the full faith and credit of the state. As of January 2003 about _ of charter schools had taken advantage of this program.

Funding received as a part of district bond measures: School districts must invite charter schools in the district to be a part of bond measures being submitted to district voters. District charter schools can choose to participate either in the district’s bond or as a separate bond question.⁷

is called “total program”. Accordingly, every K-12 student in Colorado is allocated the same per-pupil base; however the total program funding for each pupil varies by district.

⁶ Qualifying charter schools essentially amount to charter schools that claim a capital need and have begun operation. Charter schools in district owned facilities receive _ the per pupil capital revenue amount. One hundred and five of 108 currently operating charter schools received SEF capital revenue distributing \$5,000,000 across nearly 35,000 students.

⁷ Bond questions for charter schools separately are limited to 1 mill for 10 years.