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Revised Fiscal Note

(replaces fiscal note dated February 24, 2022)

Drafting Number:	LLS 22-0403	Date:	March 14, 2022
Prime Sponsors:	Rep. Herod; McCluskie	Bill Status:	House Appropriations
	Sen. Zenzinger; Coleman	Fiscal Analyst:	Anna Gerstle 303-866-4375 Anna.Gerstle@state.co.us

Bill Topic: AT-RISK STUDENT MEASURE FOR SCHOOL FINANCE

Summary of Fiscal Impact:	<input type="checkbox"/> State Revenue	<input type="checkbox"/> TABOR Refund
	<input checked="" type="checkbox"/> State Expenditure	<input type="checkbox"/> Local Government
	<input type="checkbox"/> State Transfer	<input checked="" type="checkbox"/> School Districts

The bill creates a new at-risk measure in the school finance formula, and establishes a working group to determine how the new measure will be implemented. The bill increases state expenditures in FY 2022-23 only and will impact school finance formula funding on an ongoing basis.

Appropriation Summary: For FY 2022-23, the bill requires an appropriation of \$163,338 to the Colorado Department of Education. See State Appropriations Section.

Fiscal Note Status: This revised fiscal note reflects the introduced bill, as amended by the House Education Committee. This bill is recommended by the Legislative Interim Committee on School Finance.

**Table 1
State Fiscal Impacts Under HB22-1202**

		Budget Year FY 2022-23	Out Year FY 2023-24
Revenue		-	-
Expenditures	General Fund ¹	\$163,338	-
	Centrally Appropriated	\$8,091	-
	Total Expenditures	\$171,429	-
	Total FTE	0.5 FTE	-
Transfers		-	-
Other Budget Impacts	General Fund Reserve	\$24,501	-

¹ SB 22-087 contains similar provisions concerning direct certification of students receiving Medicaid benefits. If funding for this work, estimated to cost \$128,341, is appropriated in SB 22-087, it does not need to be appropriated in this bill.

Summary of Legislation

New at-risk measure. Beginning in FY 2023-24, the bill creates a new at-risk measure in the school finance formula to identify students who are at risk of below-average academic outcomes due to socioeconomic disadvantage or poverty. The new measure includes:

- a district's percentage of students certified as eligible for free lunch based on receipt of public benefits (SNAP, TANF, Food Distribution Program on Indian Reservation) or categorical eligibility (foster, homeless, migrant, runaway or head start), supplemented by the direct certification of students participating in Medicaid or Children's Basic Health Plan; and
- a neighborhood socioeconomic status index that weights student needs based on at least five socioeconomic status neighborhood factors, linked to each student's census block group.

Working group. The bill requires the Commissioner on Education to convene a working group to prepare for the implementation of the new measure. The working group consists of representatives from the Colorado Department of Education (CDE), Department of Health Care Policy and Financing (HCPF), the Colorado Department of Human Services (CDHS), and a variety of education-related groups.

The working group must meet by August 15, 2022, and report to the Legislative Interim Committee on School Finance, Joint Budget Committee, and education committees by January 31, 2023. The bill specifies what the working group may consider, including:

- collecting the necessary data to implement the measure;
- developing the neighborhood socioeconomic status index and determining the five index factors;
- determining how a student's neighborhood socioeconomic index value should be incorporated;
- conducting pre-implementation modeling and testing with actual data;
- considering the impact of the new measure on other programs; and
- determining the distribution of at-risk funding, how districts and charter schools will demonstrate that at-risk funding is being used to serve at-risk students, the process for initially identifying students, and the design of a hold-harmless provision.

The bill requires that CDE apply to participate in the federal demonstration project for direct certification for children receiving Medicaid benefits. If selected, CDE must enter into an agreement with HCPF to directly certify students enrolled in Medicaid as eligible for free and reduced price meals without further application.

State Expenditures

In FY 2022-23 only, the bill increases state General Fund expenditures in the Colorado Department of Education by \$171,429. It also may impact school finance formula funding beginning in FY 2023-24. These impacts are listed in Table 2 and detailed below.

**Table 2
 Expenditures Under HB22-1202**

	FY 2022-23	FY 2023-24
Department of Education		
Personal Services	\$34,363	-
Operating Expenses	\$675	-
Capital Outlay Costs	\$6,200	-
Meeting Costs	\$1,300	-
Information Technology Costs	\$100,800	-
Facilitator Costs	\$20,000	-
Centrally Appropriated Costs ¹	\$8,091	-
Total Cost	\$171,429	-
Total FTE	0.5 FTE	-

¹ Centrally appropriated costs are not included in the bill's appropriation.

Demonstration project. CDE requires \$128,341, excluding centrally appropriated costs, and 0.4 FTE in FY 2022-23 only to apply for the federal demonstration project for direct certification of students receiving Medicaid benefits. Costs include one-time information technology costs to support the application and develop implementation processes, as well as to modify CDE data systems for Medicaid direct certification. It is estimated to require 880 hours, at a cost of \$100 per hour, plus \$12,800 to modify the current CDE nutrition data system. HCPF will also have an absorbable workload increase to enter into a data sharing agreement with CDE. Senate Bill 22-087 contains similar provisions and costs relating to this demonstration project; funding for these costs only need to be appropriated once.

Working group. CDE requires 0.1 FTE in FY 2022-23 only to support the working group and conduct the modeling related to the new factor, as well as \$20,000 for a facilitator and \$1,300 for in-person meeting expenses. Most working group meetings are assumed to be conducted online and the bill specifies that members of the working group are not reimbursed for expenses. The bill also increases workload for HCPF and CDHS to participate in the working group. No change in appropriations is required for those agencies.

School finance. Establishing a new measure for at-risk funding will impact school finance formula funding beginning in FY 2023-24. The exact impact will depend on how the components considered by the working group are implemented, such as determination of the neighborhood socioeconomic status index and how it is incorporated into the measure, the composition of at-risk factor funding based on the new measure, any hold harmless provisions, among other things. Because the details of have not yet been determined, potential changes to the individual district allocations and total state share of school finance cannot be estimated at this time.

Centrally appropriated costs. Pursuant to a Joint Budget Committee policy, certain costs associated with this bill are addressed through the annual budget process and centrally appropriated in the Long Bill or supplemental appropriations bills, rather than in this bill. These costs, which include employee insurance and supplemental employee retirement payments, are shown in Table 2.

Other Budget Impacts

General Fund reserve. Under current law, an amount equal to 15 percent of General Fund appropriations must be set aside in the General Fund statutory reserve beginning in FY 2022-23. Based on this fiscal note, the bill is expected to increase the amount of General Fund held in reserve by \$24,501 in FY 2022-23, which will decrease the amount of General Fund available for other purposes.

School District

As discussed in the state expenditures section, the new at-risk measure may change district allocations of school finance funding beginning in FY 2023-24 and the amount or type of work required for districts to count at-risk students. The exact impact will depend on how the components considered by the working group are implemented, such as determination of the neighborhood socioeconomic status index and how it is incorporated into the measure, the composition of at-risk factor funding based on the new measure, any hold harmless provisions, among other things. Because the details of have not yet been determined, potential changes to the total state share of school finance and individual district allocations cannot be estimated at this time.

The bill may also increase workload for any district whose representatives serve on the working group by a minimal amount.

Effective Date

The bill takes effect upon signature of the Governor, or upon becoming law without his signature.

State Appropriations

In FY 2022-23, the bill requires a General Fund appropriation of \$163,338 to the Colorado Department of Education, and 0.5 FTE.

The provision of the bill that requires CDE to apply for the federal demonstration project is also included in Senate Bill 22-087. As a result, the \$128,341 and 0.4 FTE required to implement that provision only needs to be appropriated in this bill if those costs are not included in the appropriation for Senate Bill 22-087. If these demonstration project costs are included in the appropriation for SB22-087, they do not need to be appropriated through this bill and this bill will instead require an appropriation of \$34,997 and 0.1 FTE to the CDE.

State and Local Government Contacts

Education

Health Care Policy and Financing

Human Services

The revenue and expenditure impacts in this fiscal note represent changes from current law under the bill for each fiscal year. For additional information about fiscal notes, please visit: leg.colorado.gov/fiscalnotes.