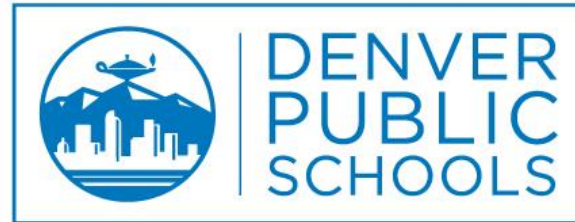




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BUDGET UPDATE TO DCTA

April 17th, 2017



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BUDGET PROCESS

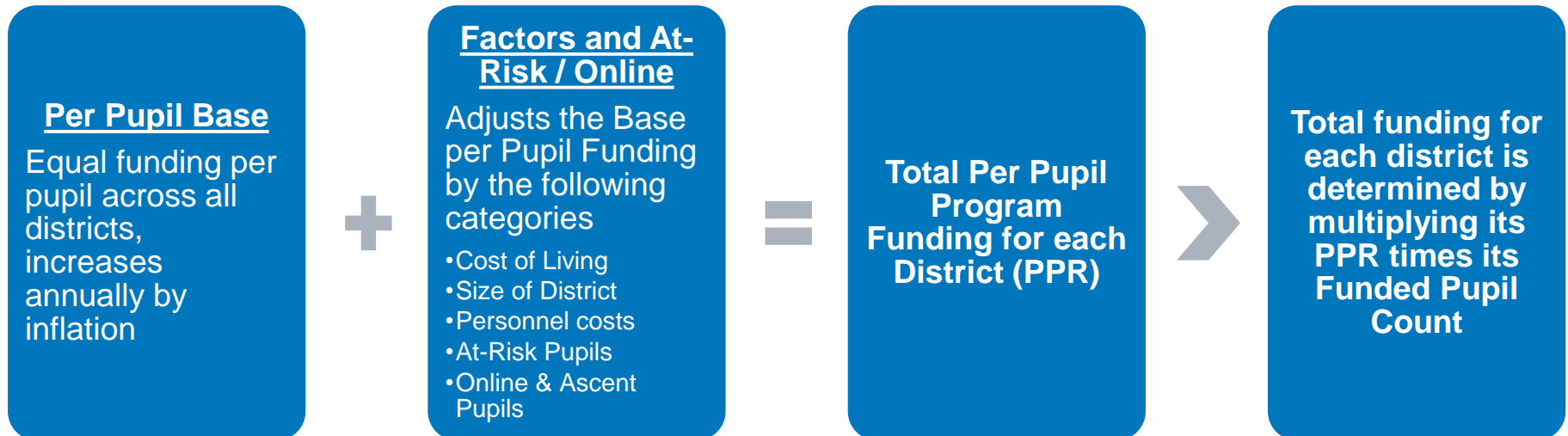
BUDGET PROCESS



SCHOOL FINANCE FUNDAMENTALS

Amendment 23 and the Colorado School Finance Act outlines the Total Program Funding formula used to determine a per-pupil funding level for each school district

- The Total Program Funding includes a base amount plus additional factors that vary by district and compensate for financial differences among districts such as cost of living, size of the district, and personnel costs
- In addition to these factors, additional funding is allocated for At-Risk and Online pupil counts



COLORADO K-12 FUNDING FORMULA

	FY16-17 Estimate	FY17-18 Estimate
Total Funded Pupil Count	86,193	86,840
Base Funding (BF)	\$6,368	\$6,546
Personnel Costs (PL)	0.9050x	0.9050x
Cost of Living (CL)	1.2430x	1.2430x
Size (SZ)	1.0297x	1.0297x
Total Per-Pupil Funding [SZ*(BF*CL*PL)+BF*(1-PL)]	\$7,999	\$8,223
Total Program Funding excl. At-Risk & Online/Ascent	\$686,711,090	\$712,365,262
At-Risk Pupil Count	49,033	47,930
District % At-Risk Pupils	59.7%	57.8%
State Average % At-Risk	36.4%	36.3%
Base At-Risk Pupils	29,873	30,043
Concentration At-Risk Pupils	19,160	17,887
Total At-Risk Factor	0.204x	0.198x
"Base" At-Risk Funding		
12%*Total Per-pupil Funding	\$28,674,151	\$29,644,973
Concentration At-Risk Funding district % > state %	\$30,927,180	\$29,078,537
Total At-Risk Funding	\$59,601,331	\$58,723,510
Total At-Risk Funding per At-Risk Pupil	\$1,215.54	\$1,225
Base At-Risk Funding Per Pupil	\$959.88	\$987
Concentration At-Risk Funding per Pupil	\$1,614.12	\$1,626
Total On-Line Funding	\$2,637,737	\$2,751,670
Total Program Formula (pre - Negative Factor)	\$748,950,157	\$773,840,442
Per-Pupil (pre - Negative Factor)	\$8,689	\$8,911
Negative Factor	(\$86,492,914)	(\$93,992,914)
Total Program Funding (Post - Negative Factor)	\$662,457,243	\$679,847,528
Total Program Funding per Pupil (Post - Negative Factor)	\$7,686	\$7,829

Base Per Pupil Funding statutorily increases by inflation

"Factor" funding – includes Personnel Costs, Cost of Living, Size, At-Risk, Online and Negative Factors

For FY 2015-16 Total Factor funding including the Negative Factor totals \$114M, excluding the Negative Factor, this would be \$202M

Total Program Per Pupil Revenue, the delta between this and the Pre-Negative Factor PPR is \$1,028 per student



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STATE OF THE STATE

STATE OF THE STATE

Economic Overview

- Colorado's economy is expected to continue to expand at a moderate pace
- Oil and gas is expected to rebound from a two year downturn
- Consumer spending remains robust and expected moderate job growth
- The unemployment rate is one of the lowest in the country and fell to 2.9% in February 2017
- The real estate market remains one of the strongest in the country, however, the rapid price appreciation over the last 3 years is expected to dampen as new home owners are priced out of the market
- Nonresidential construction continues to increase driven by demands for warehouses, office space and hotel real estate
- Denver-Boulder-Greeley CPI is expected to be 2.8% in FY 2017-18

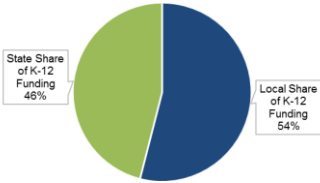
Budget Overview

- Despite the strong economic growth, the state budget continues to face severe pressure due to mounting pressures from K-12 and Higher Education, Corrections, Transportation and Healthcare
- Impacts from the Gallagher and Taxpayer's Bill of Rights (TABOR) continue to hamper the state's ability to fully fund K-12 Education
- In order to meet the limits set by TABOR and Referendum C, the legislature is planning on reducing the Hospital provider fee by the expected overage of ~\$264M
- The Joint Budget Committee proposed to increase the negative factor by \$48.8M or ~\$5M to DPS bringing the total of funding withheld from DPS to ~\$91M annually
- Since 1980, Gallagher and TABOR have resulted in the share of a homeowner's value invested in DPS has reduced ~78% from 0.77% to 0.32%

IMPACT OF GALLAGHER AND TABOR

K-12 Education Funding

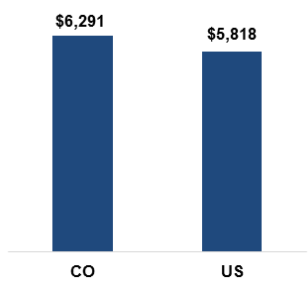
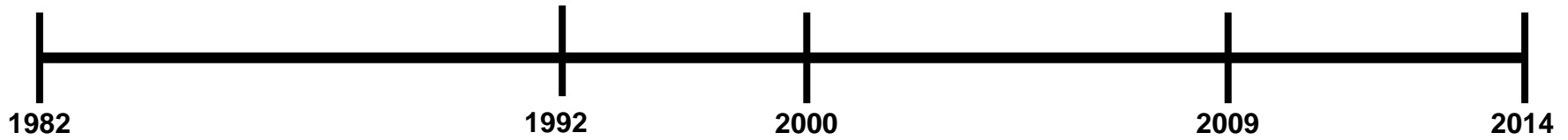
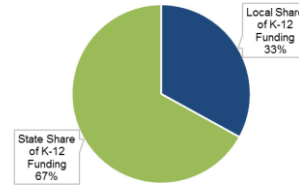
Gallagher Amendment passes maintaining a proportional relationship between revenue raised from business and residential property taxes (55% / 45%)



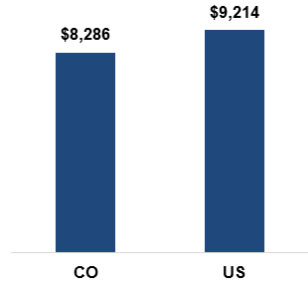
TABOR passes establishing limits on revenues and the ability of elected officials to increase revenue or change property assessment rates

Amendment 23 passes establishing minimum increase in “base” per pupil funding by at least the rate of inflation and with the goal of catching K-12 funding up to 1988-89 levels adjusted for inflation

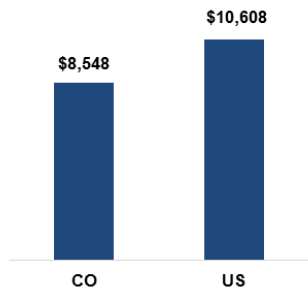
Due to the declining local dollars and lower state revenues as a result of the Great Recession, Legislators introduce the “negative factor” reducing K-12 funding by ~\$1B per year



In the early 1980s Colorado spent ~\$500 more per student than the national average



By 2000, Colorado was spending ~\$900 less per student than the national average



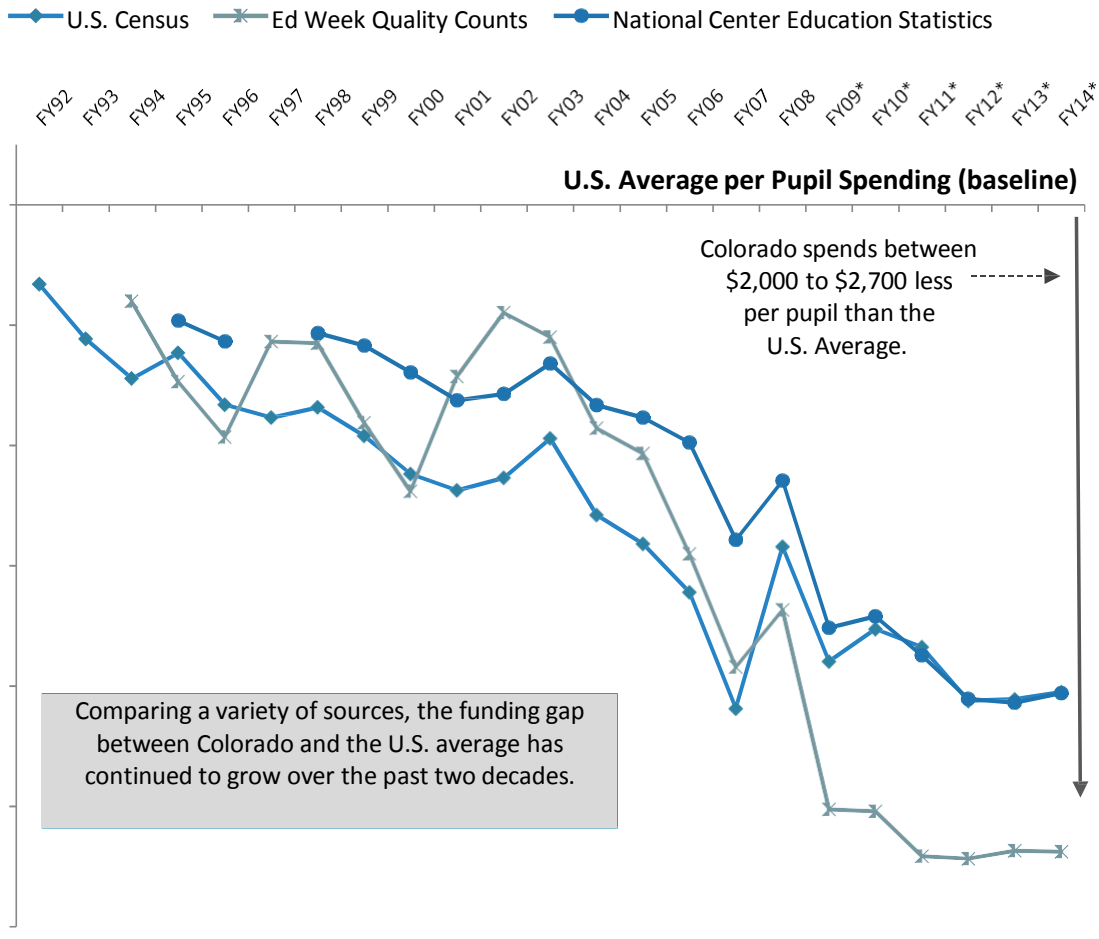
The latest figures show that Colorado spends ~\$2,500 less per student than the national average

Source: Colorado Fiscal Institute

COLORADO VS NATIONAL AVERAGE

K-12 Per Pupil Spending

Comparing Colorado to U.S. Average - Trends in Per Pupil Spending
FY 1991-92 to FY 2013-14



For over twenty years, the per pupil spending gap between Colorado and the U.S. average has continued to grow. In the early to mid-90's the gap was less than \$500 per student. By 2013-14 the gap increased to between \$2,000 to \$2,700 per pupil.

Audited data from U.S. Census, Quality Counts, NCES
Chart: Colorado School Finance Project
April 2017

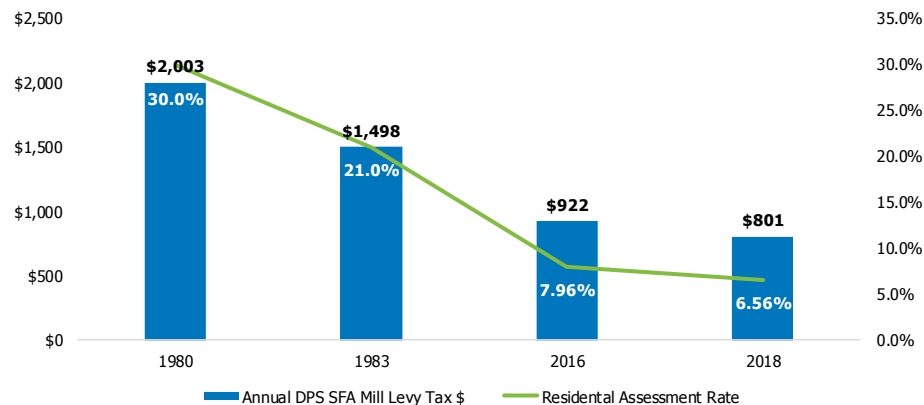
* Negative Factor (mechanism to reduce funding) incorporated in School Finance Act

IMPACT OF GALLAGHER AND TABOR

Property Taxes

- The Gallagher Amendment, passed in 1982, fixes the ratio of taxes collected from Commercial and Residential property at 55% and 45% respectively
 - Fixed the assessment rate for Commercial property at 29% meaning the residential assessment rate is adjusted to maintain the overall ratio
- TABOR, passed in 1992, requires that voters need to approve all tax increases including the residential assessment rate
 - The combined effect of Gallagher and TABOR has reduced the assessment rate on Residential property from 30% in 1980 to an estimated 6.56% for 2018

Impact of Gallagher and TABOR on Residential Assessment Rates and DPS Funding



	1980	1983	2016	2018
Average Assessed Value in 2018 dollars ¹	\$137,572	\$130,894	\$235,075	\$249,100
Residential Assessment Rate	30.0%	21.0%	7.96%	6.56%
2017 Denver Public Schools Mills ²	48.54	54.50	49.28	49.04
Annual DPS SFA Mill Levy Tax \$	\$2,003	\$1,498	\$922	\$801
Percent of Assessed Value Invested in DPS	1.46%	1.14%	0.39%	0.32%

Average Assessed Value in 2018 dollars¹

Residential Assessment Rate

2017 Denver Public Schools Mills²

Annual DPS SFA Mill Levy Tax \$

Percent of Assessed Value Invested in DPS

¹Assumes 2018 ratio between home price and assessed valuation of ~65% remains constant across all years

² 2016 and 2018 include the implied Mills required to cover State Equalization and excludes all Mill Levy Overrides

- Since 1980, Gallagher and TABOR have resulted in the implied share of a homeowner's value invested in DPS has reduced more than 78% from 1.46% to 0.32%



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FY 2017-18 BUDGET

BUDGET PROCESS

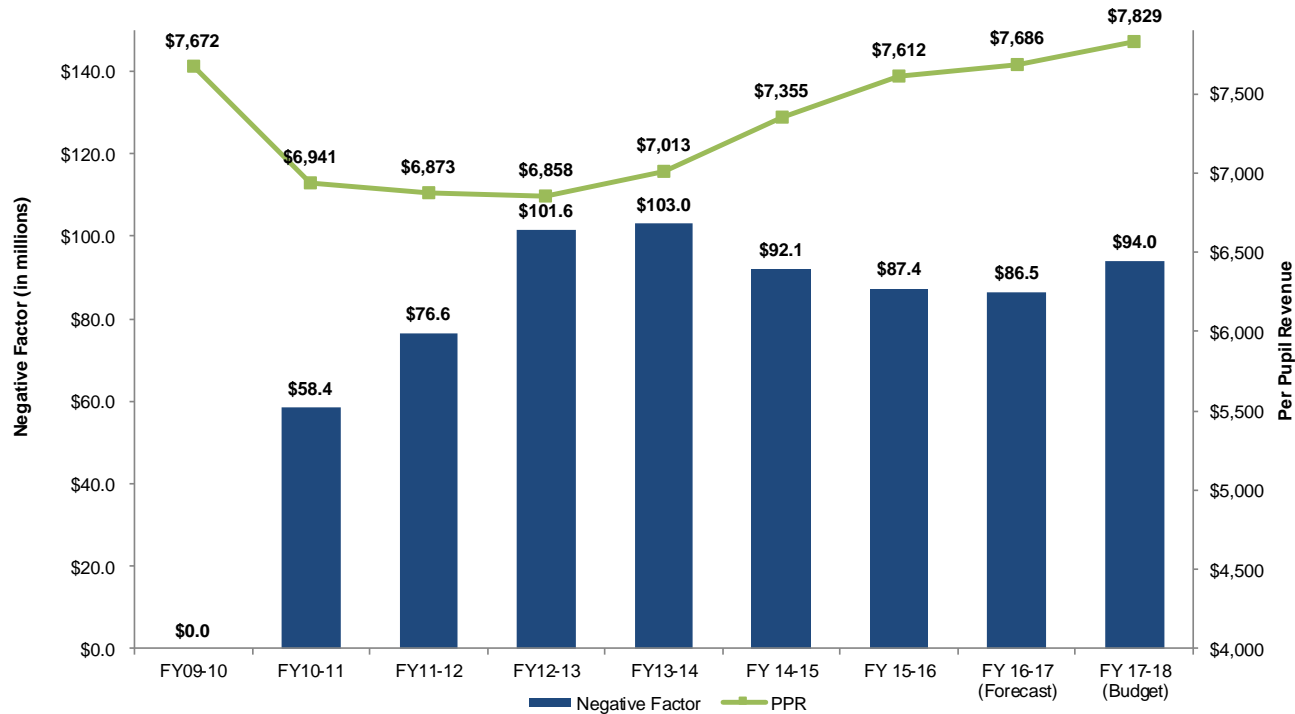


FY2017-18 PROPOSED BUDGET ASSUMPTIONS

Budget Input	Assumption
Enrollment	Per Pupil Revenue: \$7,829 Funded Pupil Count: 86,840 (K=.5) per Planning & Analysis forecast Total Projected Enrollment: 95,128 (ECE & K = 1.00) FRL 67.1% (including charters)
Student Based Budget Changes	SBB Base allocation increased due to account for COLA increases and a higher FY2017-18 benefit expense Increased to provide an equivalent purchasing power for previous weights Added additional weights for Direct Certify students, 2016 MLO allocations and additional expenses that were previously budgeted including Military Ed, TLC, Math Fellows and Newcomer Centers SBB Allocations updated to account for changes in Enrollment and student demographics
Compensation Increases	Competitive compensation increase budgeted for all employees dependent on final state budget All ProComp-eligible DCTA members receiving additional incentives as earned DPS is also contributing an additional .5% to cover the increasing SAED rate to PERA, for total FY17-18 SAED rate of 5.25%
Other Revenue Factors	Total Program increase of 1.86% and CPI of 2.8% 11% growth in Denver Assessed Valuation, with no change to Assessment Rate Donations and ECE Tuition revenue increased to more accurately reflect projected revenue amounts

IMPACT OF THE NEGATIVE FACTOR

DPS' Share of Negative Factor and Effect on PPR



- PPR is forecasted to increase \$143 or 1.86% in FY18
- Budgeted an increase to the Negative Factor of \$75M or \$7.5M to DPS
- Since the introduction of the Negative Factor, the State has withheld more than \$600M from DPS through FY 16-17
- This equates to an average annual reduction of almost \$1,000 per student

CHANGES TO SBB

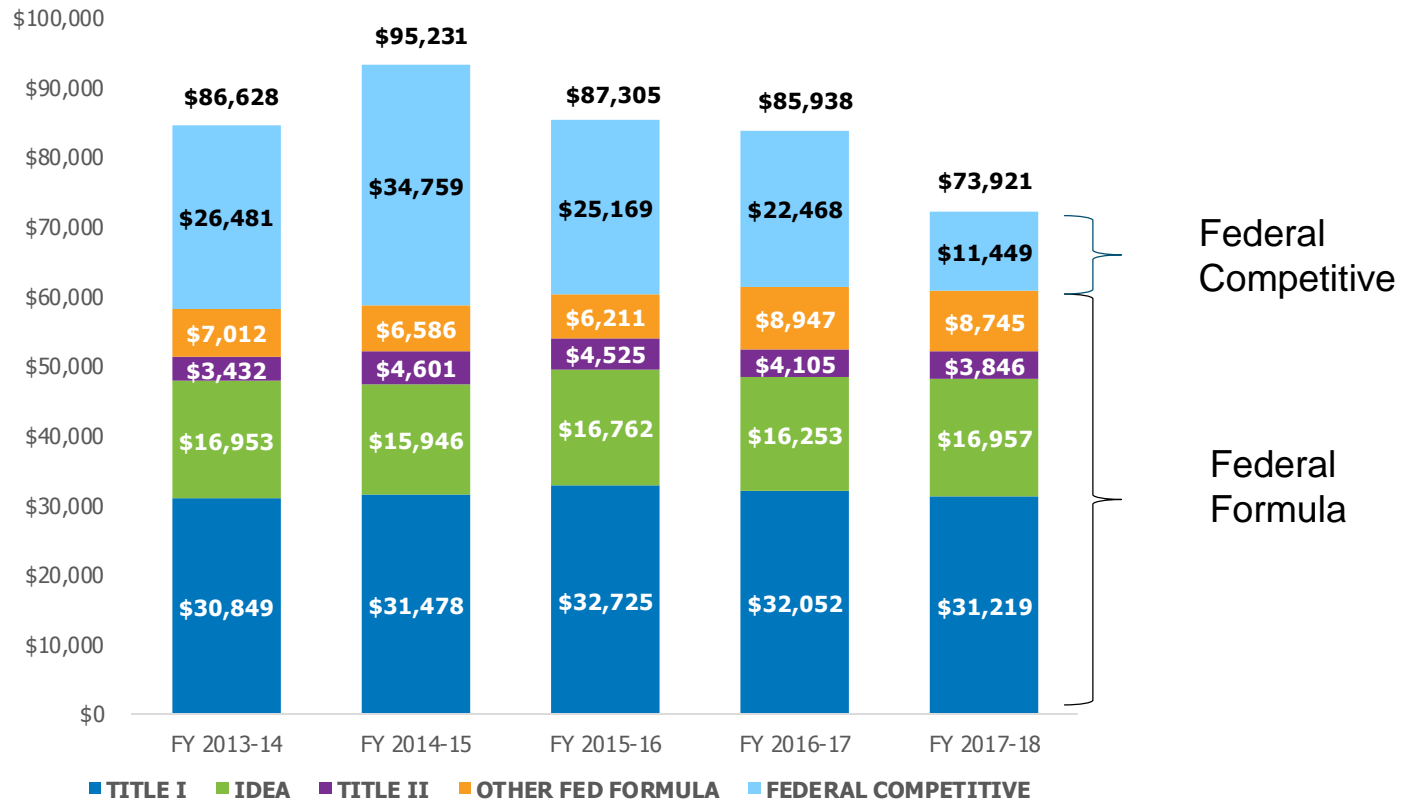
- DPS added a new weight that funds an additional \$80 per student that are Direct Certified for Free Student Lunch
- Added additional funding in SBB associated with the following 2016 MLO initiatives:
 - Whole Child
 - Teacher Leadership & Collaboration
 - Technology
 - Dual enrollment
- Allocated costs associated with Math Fellows and Military Education that were centrally funded to SBB
- Consolidated ECE into General Fund from multi-funds (19 & 29) to enable greater transparency and management for principals

	YoY Increase
SBB Enrollment & Purchasing Power	\$4,566,661
New SBB Funding	
2016 MLO	
While Child	\$7,615,656
Early Lit	\$2,401,663
Tech	\$3,574,808
Dual Enrollment	\$1,760,034
TLC	\$14,622,375
Total 2016 MLO	\$29,974,536
Direct Certification Weight	\$1,561,120
Total New SBB Funding	\$31,535,656
Previously Centrally Budgeted now in SBB	
Math Fellows	\$13,506,958
Military	\$2,447,652
Newcomer Centers	\$1,149,461
ECE	\$25,579,352
Total Previously Centrall Budgeted now in SBB	\$42,683,423
Total Incremental Funding in SBB	\$78,785,740

- All in, DPS is increasing SBB by over 16%, or more than \$78M from FY16-17 to FY17-18

CHANGES TO FEDERAL FUNDING OUTLOOK

FY 2013-14 to Proposed FY 2017-18



- FY 2017-18 proposed budget for federal funds to decrease YoY by 13%
 - \$5.2M planned grant cliff reduction for Teacher Incentive Fund (TIF)
 - FY 2017-18 budget does not include new grants that may be awarded this year
 - Reduction in Title I and II allocations due to decreasing poverty levels in Denver
 - Other grant cliff reductions include TIG, YCC, 21st Century, Gear-Up

CHANGES TO FEDERAL FUNDING OUTLOOK

Potential Changes due to Federal Legislation

Proposed Change	Program Description	Proposed Reduction
<u>Eliminate</u>		
Title II	Teacher and leader professional development	\$3.8 M
Gear-Up	Counseling services for students	\$893 K
21st Century	Programs for kids that occur before and after school	\$835 K
Teacher Quality Grants	New teacher residency programs	\$679K
AmeriCorps	Teacher and family/community engagement	\$2.8 M
<u>Reduce</u>		
Title I Allocation	Serves disadvantaged schools and students	Less allocation
Medicaid	Screen, health education, speech/language, OT/PT	max \$2.8 M
<u>New Funding</u>		
TBD	\$1 billion to serve disadvantaged students via portability	TBD
TBD	\$1.4 billion for private school choice program	TBD

ESSA Update

- The State has decided to not withhold an optional 3% withholding from Title allocations over the 3% mandated in ESSA
- The Colorado state plan due date has been extended to May 3rd

March 16, 2017 – President Trump’s Budget Blueprint released to the public

- Majority of changes would not impact DPS until FY 2018-19
- Proposed 13% reduction (\$9 billion) to the U.S. Department of Education
- \$2.4 billion proposed investment in private school choice programs and portability systems
- Appropriations will continue to change and must be still approved by Congress

April 28, 2017 – Continuing Resolution expires

- Additional reductions have been proposed for U.S. Department of Education budget
- Potentially reduce the Title I and II allocations

DISTRICT WIDE USE OF FUNDS

The 6 Cost Centers are as follows:

Principal Managed: includes all Principal managed & SBB expenditures and ProComp

Centrally Budgeted School Expenditures & School Support: includes expenses not managed by principals but predominately consists of school based employees that support schools & students directly; i.e. Textbooks, Career Tech Ed, Paid Leaves for Teachers, Principal Performance Compensation, Library Services, Unassigned Teachers, Student Board of Education, Portfolio Management, HR (Recruitment, Teacher Leadership management), FACE, Pupil Records, Assessments, CELT

Center Programs & SEO Services: excludes school based expenses like Mild Moderate teachers, Psychologists, and Social Workers. All Center Programs and Severe Needs are included

Operations: includes Facility related expenses for Utilities, Custodial, Maintenance, Property & Workers Compensation Insurance and other operational costs such as Transportation, Technology Services, and others.

Central: includes Office of Superintendent, Instructional Superintendent team, Legal, Communications, Finance, Planning & Analysis, Accounting, Purchasing, Payables, Payroll, Labor Relations, Grants, Board of Education, Chief Operating Officer

DISTRICT WIDE USE OF FUNDS

Cost Center (in millions)	Total FY17-18 Budget	% of Total Budget	K-12 Per Student Expenditure
<u>School Support</u>			
Principal Managed Resources	\$ 476	62%	7,063
Operations	\$ 118	15%	1,745
Centrally Budgeted School Expenditures & School Supports	\$ 115	15%	1,708
Center Programs & SEO Services	\$ 31	4%	463
<u>Central</u>	\$ 33	4%	497
Grand Total	\$773	100%	11,476
K-12 Projected Students	67,335		

- 96% of expenditures support students with 4% funding Central/Headquarters
 - Nearly all funds directly support students through principal managed, centrally budgeted school expenditures & school supports and center programs & other SEO costs
 - By allocating the vast majority of the 2016 Mill Levy Override directly to schools, central administration decreased from 5% in FY16-17 down to 4% in FY 17-18
- DPS plans to spend ~\$11.5k per K-12 student in 2017-18
- Includes all K-12 district managed General Fund and ProComp expenditures
 - Excludes all Charter expenses and ECE expenditures
 - Excludes all Federal & Private Grants, Capital/Bond, Food Service, and Other Funds
 - All Charter portions of Central, Center Programs and Operations adjusted



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5 YEAR FORECAST

5 YEAR FORECAST ASSUMPTIONS

Total Enrollment	FY 17-18	FY 18-19	FY 19-20	FY 20-21	FY 21-22
Total District Enrollment	87,386	88,110	88,839	89,568	89,805

	FY 17-18	FY 18-19	FY 19-20	FY 20-21	FY 21-22
CPI	2.8%	2.9%	2.3%	2.3%	2.3%

	FY17-18	FY18-19	FY19-20	FY20-21	FY 21-22
At Risk Students	47,930	46,851	45,797	44,767	43,759
Total At Risk Funding	\$ 58,724	\$ 57,617	\$ 56,261	\$ 54,994	\$ 53,990
Percentage of At-Risk Students (Free)	57.8%	56.1%	54.4%	52.7%	51.3%
Percentage of FRL	65%	63%	62%	60%	59%

- Statewide Negative Factor increase of \$75M in FY17-18 (\$7.5M impact to DPS)
- Does not incorporate any potential backfills for reductions in federal funding
- Enrollment Projections from Planning & Analysis
- SBB Increases based on Enrollment Trends, COLA impact on Average Teacher Salary (inclusive of turnover savings and benefits), and CPI

5 YEAR FORECAST \$75M NEGATIVE FACTOR INCREASE

	FY17-18	FY18-19	FY19-20	FY20-21	FY21-22
Revenue					
Total Program Revenue Baseline ¹	\$929,096	\$960,804	\$991,151	\$1,017,813	\$1,045,315
Change in Formula Revenue	\$17,390	\$25,905	\$21,958	\$22,623	\$20,013
Change in 2012 & 2016 MLO	\$5,216	\$4,443	\$4,703	\$4,880	\$4,228
Tuition & Other Revenue Increases	\$9,102	\$0	\$0	\$0	\$0
Total Program Revenue	\$960,804	\$991,151	\$1,017,813	\$1,045,315	\$1,069,556
Expense					
Expense Baseline ²	\$910,476	\$971,519	\$1,002,770	\$1,028,527	\$1,054,985
Enrollment and Purchasing Power Expense Changes	\$26,256	\$29,486	\$23,955	\$24,137	\$22,003
Teacher Leadership & 2016 MLO programs	\$34,798	\$2,777	\$1,802	\$2,321	\$833
Centrally Managed Programs	(\$11)	(\$1,012)	\$0	\$0	\$0
Total Expense	\$971,519	\$1,002,770	\$1,028,527	\$1,054,985	\$1,077,821
Net Change in Fund Balance	(\$10,715)	(\$11,619)	(\$10,714)	(\$9,670)	(\$8,264)
Fund Balance	\$113,421	\$101,802	\$91,088	\$81,419	\$73,155
10% of Revenue	\$96,080	\$99,115	\$101,781	\$104,532	\$106,956
Fund Balance remaining to 10% of Revenue	\$17,341	\$2,687	(\$10,693)	(\$23,113)	(\$33,801)
¹ Includes all General Fund revenue sources (Program Funding, Specific Ownership Taxes, ECE Tuition and Mill Levy Overrides)					
² Special Projects expenditures forecasted to match revenue based on historical trends, FY17-18 Budget includes \$2.8 use of fund balance					

5 YEAR FORECAST \$48.8M NEGATIVE FACTOR INCREASE

	FY17-18	FY18-19	FY19-20	FY20-21	FY21-22
Revenue					
Total Program Revenue Baseline ¹	\$929,096	\$963,304	\$993,651	\$1,020,313	\$1,047,815
Change in Formula Revenue	\$19,890	\$25,905	\$21,958	\$22,623	\$20,013
Change in 2012 & 2016 MLO	\$5,216	\$4,443	\$4,703	\$4,880	\$4,228
Tuition & Other Revenue Increases	\$9,102	\$0	\$0	\$0	\$0
Total Program Revenue	\$963,304	\$993,651	\$1,020,313	\$1,047,815	\$1,072,056
Expense					
Expense Baseline ²	\$910,476	\$971,519	\$1,002,770	\$1,028,527	\$1,054,985
Enrollment and Purchasing Power Expense Changes	\$26,256	\$29,486	\$23,955	\$24,137	\$22,003
Teacher Leadership & 2016 MLO programs	\$34,798	\$2,777	\$1,802	\$2,321	\$833
Centrally Managed Programs	(\$11)	(\$1,012)	\$0	\$0	\$0
Total Expense	\$971,519	\$1,002,770	\$1,028,527	\$1,054,985	\$1,077,821
Net Change in Fund Balance	(\$8,215)	(\$9,119)	(\$8,214)	(\$7,170)	(\$5,764)
Fund Balance	\$115,921	\$106,802	\$98,588	\$91,419	\$85,655
10% of Revenue	\$96,330	\$99,365	\$102,031	\$104,782	\$107,206
Fund Balance remaining to 10% of Revenue	\$19,591	\$7,437	(\$3,443)	(\$13,363)	(\$21,551)

¹ Includes all General Fund revenue sources (Program Funding, Specific Ownership Taxes, ECE Tuition and Mill Levy Overrides)

² Special Projects expenditures forecasted to match revenue based on historical trends, FY17-18 Budget includes \$2.8 use of fund balance