

**ALL ESTIMATES OF REVENUES AND EXPENDITURES ARE ESTIMATES AS OF 10/16/2024 AND SUBJECT TO CHANGE AT ANY TIME BASED ON NEW INFORMATION AND DATA**

## Current HSMA Options and High-Level Considerations

October 17, 2024

### Options that result in increased revenue or decreased expenditures

#### Alternative Financing Options

Options	Requires Voter Approval	Amount of Additional Revenue	Enough Money on Its Own	Take Effect	Key Considerations
Reclassify TABOR revenue to free up state general funds and use to offset expenditures	No	Some potential amount of ~\$450 mil *however* reclassifying would create a cascade of other consequence <b>Adds \$Unknown</b>	Maybe	SY 25-26	Any amount used through this mechanism could become a major budget risk if any legal decisions caused a TABOR “reset”; this also requires revenue being above the TABOR cap.
Consider HSMA expenditures as a TABOR refund mechanism	No	Forecasted: \$365 mil in FY 25-26 \$747 mil in FY 26-27 \$727 mil in FY 27-28 Within reason the refund amounts in these years could be \$0. Currently refund for homestead, income, and sales tax <b>Adds \$Unknown</b>	Maybe but not for the next three years	SY 25-26	Estimates are within the margin of error, meaning there may be years when there are no TABOR refunds. Unknown what exemption HSMA would fall under. Would affect other refunds. Potential legal consequences.
Automatically transfer the annual amount (1/3 of 1%) of the education fund revenue generated by Prop FF	No	<b>~ Adds\$7.5 mil annually</b>	No; potentially \$0 for the next three years	SY 25-26	The state education fund is projected to be negative within the five-year forecast period.

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**Revenue Raising Options**

Options	Requires Voter Approval	Amount of Additional Revenue	Enough Money on Its Own	Take Effect	Key Considerations
Modify Prop FF to reduce the deduction cap	Yes	If TCJA expanded: AGI 300K, deduction cap 5K single/10K joint: <b>Adds \$35 mill</b>	Maybe	SY 26-27	Subject to changes in federal tax code.
Modify Prop FF to reduce the deduction cap	Yes	If TCJA expires: AGI 300K, deduction cap 3K single/6K joint: <b>Adds \$35 mil</b>	Yes	SY 26-27	Subject to changes in federal tax code.
Lower income eligibility threshold in Prop FF	Yes	If TCJA expires: AGI 300K, deduction cap 3K single/6K joint & AGI 250K, deduction cap 8K/ single, 16K joint: <b>Adds \$67 mill</b>	Yes	SY 26-27	Subject to changes in federal tax code.
Use excise taxes (e.g., sweetened beverage tax, marijuana tax, sporting events, etc.)	Yes	<p><u>Marijuana</u>: excise tax already funds school construction. 12.59% of sales tax goes to education and remainder to health programs.  <b>No extra funds</b></p> <p><u>Cigarette/Tobacco/Nicotine</u>: 70% Prop EE goes to state ed fund and is used for universal preschool.  <b>No extra funds</b></p> <p><u>Sweetened Beverage</u>  <u>Concerts/Tourism/Sporting Events</u>: would have to go to the voters  <b>Adds \$Unknown</b></p>	No	?	Marijuana is declining in the revenue that is produced. They are also subject to "slippage" so the higher they get taxed the more likely people are to change behavior and not purchase them.
Tax corporations	Yes	<b>Adds \$Unknown</b>	Unknown	?	Potentially unconstitutional.
Increase a la carte prices	No	<b>Adds \$Unknown</b>	No	?	Further differentiates between free and paid food.

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**Cost Reduction Options**

Options	Requires Voter Approval	Change in Expenditures	Enough Money on Its Own	Take Effect	Additional Costs for	Likelihood Districts Opt Out	Key Considerations
Alter the program to provide free lunch only	No	<b>Cuts \$15 mil</b>	No	SY 25-26	CEP Districts	High	HSMA schools must adopt CEP. Research shows breakfast can improve attendance.
Alter the program to provide free breakfast and lunch at elementary and middle schools only	No	<b>Cuts \$25.5 mil</b> <i>Conservative estimate: doesn't remove grades 8-12 of 6-12 and K-12 schools.</i>	No	SY 25-26	CEP Districts	High	HSMA schools must adopt CEP. Administratively difficult at site levels/difficult for K-12/6-12 schools. Stigma higher in high schools. Potentially confusing for families. Increased likelihood of accruing meal debt.
Alter the program to provide free breakfast and lunch to elementary and middle students; provide lunches only to high school students	No	<b>Cuts \$3.4 mil</b>	No	SY 25-26	CEP Districts (high school breakfast)	Medium	HSMA schools must adopt CEP. Research shows breakfast can improve attendance. Stigma higher in high schools. Potentially confusing for families. Increased likelihood of accruing meal debt. Administratively difficult at site levels/difficult for K-12/6-12 schools.
Cap the inflationary increase	No	FY 25: <b>Cuts \$5 mil</b> FY 26: <b>Cuts \$12 mil</b> FY:27 <b>Cuts \$17 mil</b>	No	SY 25-26	All Districts	High	Districts would be responsible for covering the reduction amounts at increasing amounts.
Provide reduced-price meals across the state	No	SY 25/26: <b>Cuts \$49 mil;</b> SY 26/27: <b>Cuts \$51 mil</b>	Yes	SY 25-26	Families	N/A	Districts would create a price for meals that would still abide by federal requirements. Increased likelihood of accruing meal debt.
Provide HSMA to CEP eligible districts	No	<u>&gt;40% ISP:</u> <b>Cuts \$110.7 mil</b> <u>&gt;25% ISP:</u> <b>Cuts \$55.8 mil</b>	Yes	SY 25-26	Families in non-CEP districts	N/A	>40% ISP: 60% of CO students lose free meals >25% ISP: 25% of CO students lose free meals
Provide HSMA to districts with 35%+ FRPL	No	SY 25/26: <b>Cuts \$74 mil</b>	Yes	SY 25-26	Families in <35% FRPL districts	N/A	30% of students would lose HSMA Lasts for 5 years, then reassess. Could create reserves for economic downturns.

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Including cost of living measures in prioritization	No	<b>Cuts \$Unknown</b>	-	SY 25-26	Families in some areas	N/A	If excess funds, districts with FRPL<35% could apply for funding to provide free meals. Tracks almost completely with FRPL percentage with random outliers.
Create state poverty-level threshold for meals	No	<b>Cuts \$Unknown</b>	Unknown	SY 25-26	Families over a certain \$ level	N/A	Would be based on families' income at 250% federal poverty line; those eligible through current programs still receive meals. Would require massive time/money to collect data, change data systems, etc.

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**Options that DON'T result in increased revenue or decreased expenditures**

**Alternative Financing**

<b>Options</b>	<b>Requires Voter Approval</b>	<b>Amount of Additional Revenue</b>	<b>Enough Money on Its Own</b>	<b>Take Effect</b>	<b>Key Considerations</b>
Use state education fund to cover any cost overages (no cap)	No	Legislature already needs to increase general fund contribution to state ed fund by 5.3% to meet current expenditure requirements so that state ed fund doesn't run out of money in two years. Currently no "extra" funds.	No	SY 25-26	Consequences for students' other educational experiences since it diverts funds from other education programs. State education fund is not large enough to absorb the additional costs of HSMA.
Appropriate funds (outside of state ed fund) like general fund, to fund HSMA permanently	No	Based on current expenditure assumptions, general fund = -\$921 mil	No	SY 25-26	The state general fund is already owing over \$921 mil. Could reallocate but no extra funds.
Use Title 1 funds	No	Unknown – already paying for other programs. No "extra" funds.	?	SY 25-26	Consequences for students' other educational experiences since it diverts funds from other programs.
Use expiring COVID relief funds	No	\$0	No	N/A	Funds largely allocated. Deadline was Sept 30, 2024.

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**Revenue Raising**

Options	Requires Voter Approval	Amount of Additional Revenue	Enough Money on Its Own	Take Effect	Key Considerations
Add flat tax in each tax bracket	Yes	Would require changing CO's entire tax system and would have to go to the voters.	Maybe	?	New taxes would negatively impact the same households HSMA is aiming to serve. Impacted by recessions. Unconstitutional without a constitutional amendment.
Engage businesses/families to provide donations or collect individual donations on CO tax forms	Yes	Unknown	No	?	Relies on districts' local economies/resources

**Other Options**

Options	Amount	Enough Money on Its Own	Take Effect	Key Considerations
State agency collaboration re: local food procurement	Unknown	Unknown	Unknown	Only useful if local food procurement provisions reinstated
Lobby federal government to fund universal free meals/changes to CEP	Unknown	Yes	Unknown	
Local food procurement	Unknown; increase in costs	No	SY 25-26	
Reduce food waste	Unknown	No	SY 25-26	Federal regulations for participating in National School Lunch Program. Can encourage salad bars, individually packaged items, and share tables.