



School-Finance Reform

Inspiration and Progress in Colorado

By Juliana Herman

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Come this fall, all eyes in Colorado, particularly those in schools, will be on voters in the Centennial State as they head to the polls to decide the future of Colorado's newly redesigned school-funding system. Voters there are being asked to approve a \$1.1 billion tax increase to finance Colorado's schools, an approval required for the funding reforms to kick in.¹ The proposed system is a significant step forward in the push for more equitable school funding and targeted investments in essential areas such as preschool, full-day kindergarten, and teachers and leaders.

Coloradans, however, are not the only ones who should pay attention to the legislature's efforts to improve school funding. The rest of the country should also take note. Many if not most of the other 49 states, and certainly the District of Columbia, need substantial school-funding reform, and Colorado's efforts provide the substantive guidance, and more importantly, the political inspiration, to undertake similar funding reforms elsewhere.

What inspired the reform efforts?

While it's seemingly cliché to say that school funding in the United States is a mess, it is no less true. The education-finance system is a mishmash of sources, laws, and regulations that are imposed by all levels of government. The ultimate consequence of this crazy mix is the restriction of innovation and flexibility and too often the inequitable allocation of resources determined by district wealth rather than student need. This complexity—the sheer number of players and factors involved—can make tackling school-funding reform seem impossible, and any attempt to remedy the situation dead on arrival.

Colorado shows that labeling school-funding reform futile simply isn't true. The Colorado bill—the Public School Finance Act,² signed by Gov. John Hickenlooper (D) on May 21, 2013³—was the result of two years of hard work by a group of determined advocates and policymakers. They spoke with experts in the field⁴ and held hundreds of stakeholder meetings to get widespread community input.⁵ Ultimately, they designed a

bill that met the needs of Colorado, took into account the political landscape, and aimed to create greater equity. It may not have been easy, but it was not impossible.

To be sure, the reform efforts likely benefited from the fact that one party—the Democrats—controls the legislature and the governor’s mansion. Those efforts, however, are not yet complete, as voters must approve the tax increase for the funding-reform legislation to be implemented. Still, a signed piece of legislation that proposes significant and systematic changes to the way schools would be funded shows what can be done. What has taken place in Colorado should inspire governors and state legislatures across the country to follow suit and address their own school-funding systems with the aim of adopting fairer and more equitable approaches to education.

All children should be provided the resources they need to succeed in school. If Colorado can do it, why can’t other states?

What was done in Colorado, and how does it work?

The goal of Colorado’s new school-funding system is to provide sufficient resources that are equitably distributed to school districts across the state.⁶ The intricacies of this new system are complex, and the bill spans almost 200 pages. The legislation’s primary author and sponsor, education reformer and State Sen. Mike Johnston (D-Denver), put together a detailed summary of the bill,⁷ and the legislation itself also contains a thorough summary.⁸ There are certain elements of the bill, however, that we at CAP think are particularly noteworthy for policymakers and advocates across the country. The bill’s key elements include the following:

Counting students

At the most basic level, a Colorado school district’s funding is determined by the number of students it serves. The new legislation determines a district’s funding using the average daily membership, or ADM, or a district’s average enrollment, which will be reported quarterly instead of an enrollment count that is taken on a single day of the year, usually October 1.⁹ This new approach to counting students more accurately captures the district’s student enrollment and accounts for fluctuations in that enrollment throughout the year.¹⁰ Both of these factors better ensure that a district receives more accurate funding for the students it is serving, rather than for the students who happen to show up on the first day of October.¹¹

Base-pupil calculation

Similar to many state-funding formulas, the Colorado system begins with a uniform, statewide base per-student amount and makes adjustments to that amount based on factor(s) to calculate each district's specific per-student amount. Under the new act, this base amount is only adjusted for district size, providing additional resources for smaller districts with fewer than 4,300 students.¹² The act eliminates adjustments for cost of living, personnel costs, and nonpersonnel costs.¹³ These adjustments often benefited wealthier communities by, among other things, allowing them to pay their teachers more. Rather than the state shouldering the added responsibility for these higher costs, the act transfers responsibility to the more affluent communities that have the ability to raise the additional funding locally.¹⁴

Weights for at-risk students

Colorado's new legislation provides at least 20 percent and up to 40 percent of a district's base amount in additional funding for each student eligible for the federal free or reduced-price lunch program or who is an English-language learner, or ELL, the latter for up to five years.¹⁵ A greater percentage of additional funding is provided for districts whose concentrations of either group of students exceed the statewide average.¹⁶ Concentrations of at-risk students create greater educational challenges and require additional resources to meet the needs of all students. For the first time, an ELL student eligible for the federal free or reduced-price lunch program will receive additional funding for being in both groups.¹⁷ Also for the first time, students eligible for the reduced-price lunch will be included in the additional funding weight.¹⁸ Under the current act, only students eligible for the free lunch were weighted.¹⁹

State- and local-funding calculation

In Colorado, as in most states, schools are funded by a combination of local, state, and federal dollars. Local communities have differing abilities to raise school funding from local taxes, more often than not property taxes. Even when applying the same tax rates, communities with higher property values can raise more resources than those with lower property values. The Colorado funding formula takes this *ability to raise*—in essence, the wealth of a community—into account when determining the amount of funding that is to be raised locally versus the amount of funding that the state is to provide.²⁰

According to the bill's provisions, about 60 percent of education funding should in theory come from the state, and 40 percent should come from local sources. The actual percentages for any given district, however, will depend on the wealth of that district, with wealthier communities raising a greater share of their funding locally than less-wealthy communities.²¹

Under the new legislation, the state department of education will determine each district's total—state and local—funding allocation and then calculate the amount of each district's funding that is *expected* to be raised locally, the district's local share.²² In making this determination, the department will take into account the district's property valuation per pupil, median income, and the percent of children who qualify for the free or reduced-price lunch program.²³ This calculation—the dollar amount to be raised from local sources—is then translated into the property-tax rate the district is *expected* to levy locally, with a few limitations and exceptions.²⁴ This *expected* levy dollar amount, plus additional revenue from Colorado's specific ownership of tax, comprises the district's *expected* local-funding share. The state subtracts this *expected* local amount from the district's total funding allocation and provides the remaining funding amount from state sources.²⁵

“Expected” is in italics because a district is not required to levy a specific property-tax rate, nor are voters required to approve an increase in the property levy amount to the amount Colorado's department of education calculates to be a district's *expected* property-tax rate.²⁶ It is up to each district to decide how much funding to raise locally. The state, however, will not make up the difference in funding if the district decides to levy less than its *expected* amount.²⁷ This is a new state policy regarding funding fairness: If districts have the ability to raise more from local taxes, the state will not make up the difference if the locality chooses to raise less.

By contrast, under the current provision, the amount of funding Colorado provides is determined by how much the local district *actually* raises, and not by how much the district *could* raise if it levied a given tax rate.²⁸ In addition to raising questions of fairness by allowing communities to levy low local taxes and have the rest of the state make up the funding difference, it also created a significant, unpredictable, and unsustainable burden on the state budget.²⁹

The new funding legislation also changes the circumstances under which districts can raise more than the local property-tax levy amount calculated by the department of education, though the specifics are too involved to explore in this issue brief.³⁰ It is worth noting that when a district reaches a certain threshold in additional revenue raised locally, that additional revenue would be used to replace categorical program funding that the district would have otherwise received from the state.³¹ The goal of the system is to provide districts with sufficient and equitable resources, and the legislation seems to take the position that at some point, when a district has raised so much beyond what other districts receive, additional state funding is no longer equitable. Moreover, in some cases, the state will provide additional funding to a district so as to ensure that the total revenue amount raised by a district's mill-levy rate is equal to the statewide average revenue per pupil for that mill rate, 2.5 mills.³²

Improved charter-school funding

Colorado has two types of charter schools: district-authorized charter schools and state-authorized charter schools.

District-authorized charter schools

District-authorized charter schools receive the base per-student amount of the district in which they are located and additional funding for students who are eligible for free or reduced-price lunch or ELL students.³³ This per-student amount includes both the portion of the funding raised locally and the money being provided by the state.³⁴ In other words, in Colorado the *money follows the child* into his or her charter school.

Colorado districts, as mentioned above, are permitted to raise additional money above and beyond its state-determined funding-allocation amount.³⁵ Under the new law, districts will be required to report to the state department of education any additional revenue raised, and the department will issue a public report that includes that information.³⁶ The goal is to increase transparency on the issue of school funding. Districts are not required to share this additional revenue with charter schools, but they are required to engage in negotiations with charter schools regarding the amount of additional funding that will be shared with them before they seek voter approval for a revenue increase.³⁷ If these negotiations break down, the district charter school is permitted to apply to become a state-authorized charter school, in which case the state would match the amount of additional revenue raised by the district (see below).³⁸

State-authorized charter schools

State-authorized charter schools, or institute charter schools as they are called in Colorado, receive their entire funding from the state, as they do not have a local tax base upon which to draw local revenue.³⁹ The base per-pupil amount is the same as the district in which the institute charter school is located.⁴⁰ They also receive funding for enrolled students eligible for free or reduced-price lunch or who are ELL students.⁴¹ If the district in which an institute charter school resides chooses to raise additional money above and beyond the state-determined funding-allocation amount, then the state, under the new legislation, will provide that same per-student amount to the institute charter school in order to equalize the level of funding among schools located in that same physical district.⁴² This approach works to ensure that students who choose to enroll in the charter school in their district, which just happens to be state authorized, receive the same per-student funding as if they enrolled in the school in their local district.

Online learning

Under the funding-reform bill, single-district online schools receive the same per-student amount as the traditional district brick-and-mortar schools in the online school's home district. Multidistrict online schools receive a per-student amount that is equal to the statewide base per-pupil funding each year. Both types of schools can also receive additional funding for their students eligible for free or reduced-price lunch or who are ELL students.⁴³ Currently, single-district online schools receive the same per-pupil amount as their home schools, but multidistrict online schools receive a flat amount of funding. The new bill moves closer to ensuring that multi-district online schools receive their fair share of funding.⁴⁴

Productivity and data transparency

Colorado's Public School Finance Act recognizes the importance of transparency and productivity in school funding. It requires school-level data reporting,⁴⁵ a key element in revealing the distribution—although too often inequitable distribution—of resources within a district. It also helps to determine whether the additional funding provided for ELL students or students eligible for free or reduced-price lunch is actually being spent on those students.⁴⁶ The act requires that this information be made available to parents, educators, and the public in an easy-to-understand form and on an accessible website⁴⁷ so that such stakeholders can track and compare spending within and across districts with the hope that shared best practices will lead to increased efficiency in spending.⁴⁸

On top of this, every four years the state will produce a report analyzing, for each district, the impact of any new dollars received under the legislation on academic growth and student achievement.⁴⁹ This will allow stakeholders to evaluate the productivity of increased funding,⁵⁰ and hopefully to identify more effective approaches to improving student achievement.

Within-district funding allocations

CAP has long advocated that school-funding dollars be distributed within a district equitably and based on student needs, much like they are distributed to districts based on district needs.⁵¹ Colorado's legislation takes a positive step in that direction, requiring that the state dollars provided to students eligible for free or reduced-price lunch or ELL students follow those students to their schools.⁵² In a move toward allowing greater flexibility and innovation, principals are given autonomy over how to spend these state dollars, though local boards have review authority.⁵³

CAP applauds Colorado for making this step in the right direction toward achieving equitable school funding, but more remains to be done. Under the new reform, districts are still not required to allocate their portion of additional resources or their base funding to schools based on student need. True, a majority of districts in Colorado have only one school site, but the remaining districts—often the largest districts—do have to allocate dollars among schools and should do so equitably. It is well documented that within the same district, some schools can receive more dollars than others because resources are often allocated by teacher slots and/or special programs instead of by per-pupil dollar amounts.⁵⁴ The reality is that some teachers are paid more than others, and when higher-paid teachers cluster in a given school, they pull more resources to that school, even though on paper the schools receive the same number of teacher slots.⁵⁵ All dollars, both state and local, should be allocated to schools based on student need.

Preschool and kindergarten expansion

High-quality early childhood education can significantly impact a child's life and put them on the path to future academic success. Colorado's new funding system recognizes the importance of early childhood education and makes a significant commitment to expand preschool and full-day kindergarten. Currently, enrollment in the Colorado Preschool Program is capped because the program is not fully funded. Under the new act, however, districts will be able to enroll all eligible 3-, 4-, and 5-year-olds for half-day preschool.⁵⁶ Likewise, kindergarten has traditionally been funded for only half a day, leaving children without full-day kindergarten or placing the burden entirely on districts to fund full-day kindergarten if they choose.⁵⁷ The new act changes this and funds kindergarten students as full-day pupils.⁵⁸

New investments

Colorado's Public School Finance Act provides more money for students eligible for the federal free and reduced-price lunch program and for ELL students, along with special education and gifted and talented students.⁵⁹ The reform act also creates a new teaching and leadership investment. This investment provides \$441 per student—entirely state funded⁶⁰—to help districts and schools implement Colorado's other recently enacted education reforms, including the new state standards.⁶¹ Finally, the legislation creates an innovation fund to encourage creative approaches to education, with a focus on expanded learning time, in the lowest-performing districts.⁶² Although the legislation does not detail the specifics of the innovation fund, CAP hopes it will be modeled after the U.S. Department of Education's successful i3 program. (The i3 program awards competitive grants for the development and expansion of innovative approaches to improving student achievement, with a focus on effective practices and a record of achievement.⁶³) And of course Colorado is making a significant increased investment in early childhood education.⁶⁴

Hold-harmless provisions

The Public School Finance Act includes a hold-harmless provision that ensures that districts that would otherwise see a decrease in state funding under the new funding formula will receive at least the same amount in state funding as they will receive in the 2014-15 school year. Moreover, these districts will also receive an additional 2 percent increase in funding, determined by the new formula, not by the prior funding level.⁶⁵ Hold-harmless provisions are important for phasing in formula changes, but over time they can become inequitable as funding continues to flow to districts based on past needs, not current ones.

Conclusion

Colorado is leading the nation in school-finance reform and is making significant steps toward greater school-funding equity while at the same time making targeted investments in essential education areas such as preschool, full-day kindergarten, and teachers and leaders. Colorado is showing that systematic reform can be done, and is a model for how to accomplish this much-needed change. While there is arguably more to do, this is significant progress and it should spur other states to take on the issue. In fact, voters across the country should learn from Colorado and demand that their state legislatures follow in its footsteps.

Indeed, other legislatures and governors are moving to improve school funding and are pushing for greater equity in their states. Most notably, California's Gov. Jerry Brown (D) has proposed redesigning the state's funding formula with the goal of allocating resources based on student need through a weighted student-funding formula.⁶⁶ Much like Colorado's reform efforts, Gov. Brown's proposal would make great strides toward improving the equity of school funding in California.

This is certainly an exciting and promising time in the world of school funding, and in no place is the promise for greater funding equity and investment brighter than in Colorado. For the first time in almost 20 years, Colorado voters have an opportunity to significantly revamp the state's school-finance system by means that will go a long way in addressing the ills of public education. Colorado's lawmakers have done their part; now it's up to voters to do right by this generation and future generations of Colorado students.

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Endnotes

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