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Finding solutions to the perennial problems of inadequate operating revenues . . . proves as difficult as scaling any of Colorado's famous '14'ers.

# Promoting Equalization and Local Control in Financing Colorado's Schools

Judith K. Mathers  
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The Colorado landscape is a study in extremes. Mountain peaks over 14,000 feet high descend to the more gentle foothills of the front range, and finally level to the rolling farm and ranch lands of the eastern plains. Small mountain streams become raging whitewater rivers, crashing through deep canyons before flowing quietly onto the plains.

The extremes of per pupil property valuation among Colorado school districts are as varied as the landscape itself. If communities depended solely on property tax revenue to finance schools, the amount of money available for programs or facilities would range greatly. The challenge of designing a satisfactory state finance plan that levels the extremes in districts' capacities, without removing the financial abilities of communities to reach higher educational goals, is not unlike the challenges of scaling the highest peaks or riding the roughest rapids.

There must be a satisfactory base of funds guaranteed, perhaps comparable to the elevation of the eastern plains, so that all children of the state can access an adequate education. Beyond this base, a formula structure must recognize that characteristics of school districts and children vary greatly and direct additional funds where they are most needed. The funds available to deliver educational programs that the state considers adequate in the 176 districts then appear as the lower mountains of the front range. But even this distribution of money under the formula would not satisfy all communities, and allowances must be made for those who would climb the highest peaks.

The school finance act adopted in 1994 built upon earlier attempts to equalize revenues available to school districts while also permitting local control in deciding overall resources. King and Whitney (1995) traced the recent history of Colorado school finance reforms, and Whitney, King, and Martinez (1995) provided greater detail on the foundation plan. In this

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overview of the formula, we briefly describe provisions for adjusting the base for district size and cost of living, determining educational needs including the presence of at-risk students, and permitting local leeway in raising the funding level above the state guarantee. Other sources of state and local revenue, as well as provisions for charter schools, are presented as illustrations of state aid outside the equalization program and as attempts to encourage local control over educational programs and spending. We then turn to challenges facing policy makers, including providing adequate funds to meet educational needs, determining whether to blend school performance measures into the funding formula, and financing needed improvements in capital outlay and technologies.

Our journey through the Colorado school finance landscape begins in the relatively flat eastern plains before scaling the highest peaks and riding whitewater rapids.

## The Eastern Plains: Defining a Financial Base

In a foundation plan, the state legislature identifies a funding level to be made available for all students' education regardless of where they reside. This base is multiplied by a count of students to determine the funds that must be provided to ensure at least minimal educational offerings.

Colorado's school finance rests upon pupil counts, defined as districts' enrollments (membership) on the school day nearest to October 1. Included in the count are 3 and 4 year olds with disabilities and 4 and 5 year olds determined to be at-risk. A maximum of 8,500 pre-schoolers can be served in half day programs and 500 others can participate in full day kindergartens during 1997-98. Beginning in 1997-98, declining enrollment districts are permitted a three-year average of enrollments to cushion the decline in funds (HB 97-1249, Section 8).

The legislatively determined base funding level is \$3,667 in 1997-98. Simply multiplying this base by pupil counts would not provide sufficient money to recognize variations in children's and districts' needs. The formula structure thus includes a number of adjustments, which take us from the level plains to the uneven landscape of the foothills.

## The Front Range: Variations Due to Districts' Characteristics

State legislatures consider a variety of adjustments within finance formulas to address legitimate differences in educational and financial needs of school systems (see Swanson & King, 1997). Colorado relies on a school district's cost of living, size, and number of at-risk pupils in determining the guaranteed funding level. The result is a distribution of guaranteed levels of funds, resembling the front range's lower mountains.

First, the statewide base is modified by each district's proportion of costs accounted for by personnel, cost of living, and size to determine a "per pupil funding" level. This formula depicts the adjustments for size and cost of living:

$$\text{Per Pupil Funding} = [(\text{Base} \times \text{Personnel Costs Factor} \times \text{Cost of Living Factor}) + (\text{Base} \times \text{Nonpersonnel Costs Factor})] \times \text{Size Factor}$$

A cost of living analysis is conducted every two years, taking into account the costs of housing, goods and services, transportation and taxes in regions of the state. The factor ranges from 1.004 to 1.630 in 1997-98 (Legislative Council, 1997b, p. 3) to indicate each district's cost of living relative to a base defined in 1994. This factor affects only the portion of the base that reflects the district's personnel costs, assuming that regional cost variations affect the salaries that must be paid to attract and retain qualified personnel. The personnel cost factor for each district reflects historical proportions of costs asso-

ciated with personnel. This factor is 79.6% in a hypothetical district with zero pupils, and it increases (at a decreasing rate) as enrollments rise to 90.5% in a district having over 30,000 pupils. The cost of living factor is not applied to the portion of district expenses that is not personnel related. Thus, a district's nonpersonnel cost factor is the difference between 100% and the personnel cost factor (e.g., a district presumed to devote 88% of expenditures to personnel costs would be expected to spend only 12% on nonpersonnel costs).

The size factor is an enrollment-based formula that mirrors a backwards J curve. The factor directs additional funds to the smallest districts, decreasing from a high of 159% in a hypothetical district with zero pupils to 0% in a district of 5,814 pupils. No size adjustment is granted districts with enrollments between 5,814 and 21,940 students. The largest districts also receive an adjustment for their diseconomies of large size, with the factor increasing in districts over 21,940 students to a maximum of 3.42% in those with 32,193 or more pupils. The range in size adjustment is from 1.0000 to 2.4135 in 1997-98 (Legislative Council, 1997b, p. 5).

The Act encourages large districts to divide, while also discouraging small districts from deconsolidating to gain additional size adjustment:

Therefore, when a reorganization results in a lower size factor, and less funding per pupil, the lower size factor is phased in over six years. When a reorganization results in a higher size factor, and more funding per pupil, the district or districts involved in the reorganization receive the lower size factor of the original district. (Legislative Council, 1997b, p. 5)

Second, an adjustment is made for the presence of at-risk pupils. The number of at-risk pupils is determined by the greater of (1) the actual number of K-12 students eligible for the federal free lunch program or (2) the percentage of the grade one through eight enrollment eligible for the federal free lunch program multiplied by the total student enrollment. The amount of funds available to meet needs of at-risk students is calculated by the following formula (per pupil funding is defined above):

$$\text{At-Risk Funding} = \text{Number of At-Risk Pupils} \times \text{At-Risk Factor} \times \text{Per Pupil Funding}$$

A district receives at least 11.5% of its per pupil funding for each at-risk pupil in addition to the per pupil funding level determined in the first adjustment to the base. In districts over 459 pupils, this percentage increases to a maximum of 30% as the concentration of qualifying at-risk pupils increases (by three-tenths of a percentage for each percentage point that the district's at-risk proportion exceeds the statewide average). Initially, neither the legislature nor the state department of education specified how the money was to be used, but beginning in 1997-98 districts are required by statute to spend at least 75% of the at-risk funds on direct instruction of at-risk pupils or for staff development related to at-risk pupils (HB 97-1249, Section 4).

The total guarantee for financing the operations of a district, referred to as "Total Program," is the sum of (1) per pupil funding times the pupil count and (2) at-risk funding:

$$\text{Total Program} = (\text{Per Pupil Funding} \times \text{Pupil Count}) + \text{At-Risk Funding}$$

Adjustments for size, cost of living and the presence of at-risk youth mean that all districts' Total Program guarantees exceed the previously mentioned base. However, districts with optimal sizes, low costs of living, and few low income families would be held to an amount of spending approximating the base. A floor ensures that no district has a program cost below a minimum per pupil funding level, which increases annually along with the base. The affected eight districts are guaranteed

a Total Program of \$4,305 plus any increase in a district's per pupil funding from 1996-97 to 1997-98 (Legislative Council, 1997b, p. 12).

We turn now to an examination of how local and state funds are blended to pay each district's Total Program. This equalization of local capacities might be thought of as adding elevation to the lowest valleys in an attempt to level the property-wealth landscape.

### **Raising the Valleys: Equalizing Local Capacities**

Once the guaranteed level of funding is determined for each district, a foundation plan blends state and local money to pay for this operating revenue. In the Colorado formula, the state share is the difference between the Total Program and applicable local revenue. Property taxes and revenue raised from an ad valorem "specific ownership tax" (SOT) on motor vehicles make up the local contribution.

Per pupil assessed valuations range greatly, from a peak of \$796,201 in the wealthy mountain resort community of Aspen to only \$9,915 in Sanford, a district serving the very poor San Louis valley (Legislative Council, 1997a). Assessed valuation is determined by two ratios: 29% of market value of commercial and industrial property or of annual production of mines and mineral property; and a "floating" rate on residential property (about 11% in 1997-98) which is adjusted biennially to ensure that residential property makes up the same percentage of total assessed valuation that it did in 1985. Property is reassessed every other year with reviews by the State Board of Equalization.

Each district is required to impose a property tax in conformance with the Taxpayers' Bill of Rights (TABOR). This constitutional provision, which was approved in 1992, limits the growth of tax revenue to the rate of change in inflation and district enrollment. Districts levy the lesser of (1) the prior year's levy; (2) the levy required to generate the maximum amount of property taxes permitted under the constitution; or (3) the levy that will generate the district's Total Program less minimum state aid and SOT revenue.

Thus, the required local effort is not a uniform millage rate as is generally associated with a foundation plan. Rather, the tax rate floats due to effects of the constitutional limitation on revenue growth. Nearly all districts had reached a uniform levy (40.08 mills in 1993-94) under the leveling provisions of the prior Act, and that levy became the required rate for most districts under the 1994 Act. The 1995 General Assembly established a maximum levy of 41.75 mills for the equalization program. Because of TABOR, and because excess money that would be raised in the wealthiest communities under larger tax rates is not recaptured, districts with the highest per pupil capacities have very low tax rates. As a result, the required levies range greatly, from 6.647 mills in a wealthy district to 41.75 mills in another district in 1997-98 (Legislative Council, 1997a).

Districts raise an estimated \$1.2 billion in property taxes and \$124 million in SOT revenue, as their share of the Total Program in 1997-98 (Legislative Council, 1997b, pp. 9-10). Depending on the amount of local revenue raised, the state share varies from 90% of the Total Program cost in the poorest communities to 0% in the wealthiest district. The estimated average state share is 56% of the Total Program (\$3.1 billion) in 1997-98.

The metaphorical landscape has shifted, elevating river valleys and eastern plains to direct sufficient revenue to property poor districts to meet most educational needs. However, the metaphor falls apart as the General Assembly recognizes a number of programs outside the equalization plan.

### Beyond Equalization: Additional State Aid

States generally finance a number of programs through categorical funds and this money is not always subject to equalization. Colorado districts receive categorical aid for special education, bilingual education, vocational education, and pupil transportation. They also benefit from state revenue derived from land reserves and mineral leases.

Special education under the Exceptional Children's Educational Act is partially funded by a legislative appropriation. This appropriation is distributed as a flat grant to a district, a board of cooperative services, or a combination of districts sponsoring programs. The base funding amount for an administrative unit is the same as the prior year's state funding; the remaining appropriation is distributed to districts based on the number of students with disabilities relative to the total number of qualifying students statewide HB 97-1249, Section 30). Remaining special education costs beyond the \$69.4 million provided by the state in 1997-98, are financed by funds received under the foundation program or by a voter override election. An additional \$4 million is appropriated by the General Assembly for gifted and talented student programs.

State funds under the English Language Proficiency Act partially finance bilingual education. Additional services are provided for up to two years for those students whose dominant language is not English (A/B students) and for those students who are bilingual or multilingual but their dominant language is difficult to determine (C students). Three quarters of the state appropriation (\$2.6 million) finances programs for students in the A/B categories, and the remaining 25% of funds pays for education of students in the C group.

Approved transportation costs are funded at 38.87 cents per mile, plus 33.9% of the amount by which actual operating costs exceed the mileage reimbursement. Costs may include contracted services, reimbursements to students using public transportation, and transportation for special education and vocational education programs. Reimbursement may not exceed 90% of operating expenditures; a district may impose an additional mill levy with voter approval to raise its share. The average state share of transportation costs from the \$36.2 million appropriation in 1997-98 is about 81% of total costs.

In addition to these categorical state aid programs, districts receive state funds collected as investment revenue from the sale or lease of school lands and as federal mineral lease revenue. All districts, including the wealthiest who do not receive support under the equalization program, benefit from this minimum state aid, which amounted to \$55.99 per pupil in 1997-98 (Legislative Council, 1997b, p. 11).

These categorical funds and other state aid derived through land and mineral leases supplement the Total Program guarantee in all districts. If these sources still do not satisfy communities' spending goals, voters may choose to raise additional local funds.

### The Mountain Peaks: Local Overrides and Fees

An equalization plan satisfies advocates of uniformity in spending among districts, but not all communities would be satisfied with a legislatively determined level of adequacy for school operations. The foundation approach differs from a fully state funded plan in permitting a degree of local control over ultimate spending levels. The importance of liberty, or responsiveness to differing needs and desires, is thus recognized in Colorado by empowering voters to override the required property tax levy of the equalization plan. Because of variations in capacities among districts, however, the landscape includes many mountain peaks—those wealthy communities that can achieve educational goals at lower tax rates.

Local control found support in the 1982 Colorado supreme court's holding that inter-district variations in spending neither denied equal protection of the law nor the "thorough and uni-

form" language of the state constitution (*Lujan*, 1982). The court stated that the constitutional mandate did not require "... absolute equality in educational services or expenditures." Rather than forcing equalized revenues for districts, the court found the finance system to be rationally related to the state's objective of furthering local control of education: "Taxation of local property has not only been the primary means of funding local education, but also of insuring that the local citizenry direct the business of providing public education in their school district."

The School Finance Act recognizes the desires of voters to override the guaranteed funding level, but limitations on override amounts keep the wealthiest communities from climbing to heights otherwise possible. Voters may override the equalized foundation guarantee up to the greater of 20% of a district's total program funding level or \$200,000. This leeway was increased from 15% under the prior Act. In addition to this statutory limitation, districts may not hold override elections when the revenue growth would exceed the TABOR constitutional limitation.

User fees may be charged to raise additional local money. Fees must be spent for the purposes for which they are collected, including out-of-district tuition, textbooks or supplies, participation in extracurricular and interscholastic activities, summer school, transportation beyond that which is reimbursed by the state, continuing education, or community education programs.

Override elections and user fees enable spending in many communities to rise above legislatively-determined amounts. This local control over educational programs and spending decisions is reinforced by policies that permit the formation of charter schools and districts.

### Local Control of Programs and Budgets: Charter Schools and Districts

The importance of maintaining local control over how state and local money is expended is evident in statutory provisions for charter schools and charter school districts. Colorado was one of the first states to permit districts to charter schools, and the recent action to permit the state board of education to charter school districts may signal the beginning of a national movement to ease state regulation of local governing boards.

The 1993 Charter School Act permitted district boards of education to charter 50 schools statewide; in 1996, this total was raised to 60 schools. Charter schools are released of specified local and state requirements while being held accountable for meeting district and state standards. The statute calls for charter schools to encourage diverse approaches to learning, innovative teaching methods, different forms of assessing learning and achievement, new professional opportunities for teachers, expanded choices for parents and pupils, and parental involvement. Priority is given to schools that increase opportunities for low-achieving and at-risk pupils.

The form which a charter school might take to meet the above purposes is left to the design of teacher and parent groups. Yet, the school cannot be sectarian, religious, or home-based; nor may it be a conversion of a prior private or home school. A board of education may waive local regulations, and the initial contract must identify requests for release from specified state regulations. Once approved, the school and the local board petition the state board of education for exceptions.

Despite the creation of school-based governing bodies to oversee operations, charter schools are not independent entities, and local boards of education exercise control through initial approval and retention of a portion of funds. Pupils enrolled in charter schools count toward the total district enrollment for state funding, but a school's base budget is 80% of the

district's per pupil operating revenue. The remaining 20% is negotiable, enabling the charter school to purchase varying amounts of district-sponsored operations. Charter schools may contract with outside vendors or the district for such services as food, custodial, curriculum, media, libraries, and warehousing.

The Charter School District Act of 1996 created a pilot program of not more than five school districts of 15,000 or fewer students. A participating district will operate under a charter rather than under state law and regulations, beginning with the 1997-98 school year. A district desiring a charter submits a plan to the state board of education and may receive approval for up to six years. Like the creation of charter schools, this possibility of forming charter districts reinforces the value of liberty in enabling ever greater local control of educational and budgetary decisions.

### Rapids and Other Challenges

As beautiful as the Colorado mountain and valley landscapes may be from a distance, those who traverse the land confront rugged terrain. Melting snow caps become rivers, carving deep canyons through the mountain passes. Even the most skilled rafters find challenges in taming the swiftest white water rapids.

Those who shape school finance policies face similar challenges in balancing continuing demands for greater equalization of educational opportunities and for local control of spending and educational programs. Among the greatest challenges faced today are the adequacy of revenue, the wisdom of blending performance measures into funding formulas, and sources of funds for capital outlay and technology needs.

The adequacy of revenues provided through the equalization formula was questioned in a study commissioned by the state associations of school boards and administrators (Augenblick & Myers, 1996). The primary conclusions pointed to the growing inadequacy of funding, particularly in relation to recent population growth (62,000 new students) and influxes of pupils with special needs. Average spending per pupil in the state in 1988-89 was \$4,553, which was \$278 above the national average (\$4,275). By 1993-94, average expenditures of \$4,894 had slipped relative to the national average (\$5,373). Teachers' salaries followed the same pattern, and the number of teachers per 1,000 pupils decreased in Colorado, whereas the national average remained about the same. Appropriating adequate funds for public education, or including current categorical funds within the equalization plan to place the burden on wealthier districts to finance these needs, would ease this challenge.

The General Assembly outlined state and local responsibilities for content standards and assessments in 1993. Local assessment is beginning at grades 4, 8, and 11, and the Department of Education administered statewide tests in fourth grade reading and writing in 1997. The General Assembly faced the challenge of providing funds for an expanded testing and accountability program in the future, and earmarked up to \$1.8 million of the 1997-98 appropriation for the assessment program (HB 97-1249, Section 40). Furthermore, when the testing program is in place, questions will be raised about the feasibility of tying a portion of allocations under the School Finance Act with districts' and/or schools' performances. Our recent research of performance-based rewards in four states (King & Mathers, 1996) revealed, however, potentially severe unintentional consequences to conditioning rewards and sanctions on school performance. Care must be taken in the design of such programs in order to gain the benefits of team-based recognition, without emphasizing narrow performance indicators or advantaging schools whose students' performance reflects community socio-economic status rather than school effectiveness.

Colorado's foundation plan levels the disparities in per pupil wealth for school operations, but the financing of major capital outlay projects continues to depend on local property taxation. A continuation of the Augenblick and Myers (1996) study examined district capital outlay needs, showing a shortfall of over \$2.4 billion to improve school facilities. Because the state provides no funding for large construction projects, the burden has been on local property taxes to repay debt created by issuing bonds. The General Assembly has been asked to appropriate general funds for this purpose or to examine whether the constitution should be amended direct a portion of lottery revenue to public school capital outlay. Once again, if large amounts of funds were to be directed to capital outlay, the distribution method must be sensitive to district wealth inequities.

Funds are needed in all parts of the state to finance an adequate level of technologies within classrooms and to link all schools to the internet. An information infrastructure committee was created by the 1996 General Assembly. This committee had the task of developing a statewide information infrastructure to connect urban and rural communities with school districts, institutions of higher education, libraries, and other public agencies and to provide access to the information superhighway. Whatever design emerges from this task force will demand appropriations to bring the plan to fruition.

Finding solutions to the perennial problems of inadequate operating revenues and school facilities continues to prove to be as difficult as scaling any of Colorado's famous "14'ers," peaks that rise above 14,000 feet. Technology needs expand faster than whitewater during the spring runoff, and funding an adequate level of technologies in all schools may prove more challenging than shooting the rapids. Just as rapids are always followed by a stretch of gentle flowing water, even today's funding challenges can be met. But the turbulent policy arena, with its demands for balancing uniformity with local control and for adequately financing education, will once again push the legislative agenda from calm water into surging rapids.

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