



**FourPoint**  
Education Partners

Colorado Legislature: Interim Committee on School Finance

# Volume 3: Recommendations to Improve the Effectiveness and Efficiency of Colorado's School Finance and Funding System

September 17, 2018

## ACKNOWLEDGEMENTS

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FourPoint Education Partners would like to acknowledge the authentic engagement of the Interim Committee on School Finance throughout the 2017 interim and the 2018 regular legislative session and 2018 interim.

Representative Paul Lundein (Chair) and Representative Alec Garnett (Vice Chair)

Members:

Representative Janet Buckner

Senator Bob Gardner

Representative Millie Hamner

Senator Owen Hill

Representative Timothy Leonard

Senator Michael Merrifield

Senator Jerry Sonnenberg

Senator Rachel Zenzinger

We would also like to acknowledge the courage of the Colorado Legislature in their passage of House Bill 17-1340 to study the state's school finance and funding system. Change requires both a willingness to do something different and the courage to do different things. Their choice to study the school finance and funding system is a critical step towards making changes to improve the effectiveness and efficiency of that system.

Finally, we would like to express our gratitude to the Legislative Council Staff and the leadership and staff at the Colorado Department of Education for their invaluable knowledge, experience, expertise, thoughts, and insights throughout the 2017 interim and 2018 regular legislative session.

## **DISCLAIMER**

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FourPoint Education Partners has benefited from the knowledge, experiences, and expertise of several individuals and organizations over the course of the 2017 interim session, the 2018 regular legislative session, and the 2018 interim session. All information presented in this volume and all errors are those of FourPoint Education Partners.

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## EXECUTIVE SUMMARY

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Colorado's school districts, charter schools, and Boards of Cooperative Educational Services expended more than \$9.4 billion in the 2017-2018 school year.<sup>1</sup> K-12 education made up 19.4 percent of the state's operating budget of \$28.84 billion; and 38.6 percent of the state's \$10.62 billion general fund.<sup>2</sup> Every school district's level of funding is determined through formulaic provisions included in the Public School Finance Act of 1994. With the level of funding set, the law also includes the finance processes, procedures, and provisions by which local school district and the state government share in paying for that level of funding.

Given this prominence in state and local financing and funding, the Colorado Legislature passed House Bill (HB) 17-1340 that created a legislative Interim Committee to study school finance issues over the course of the 2017 and 2018 legislative interims and "make legislative recommendations concerning how to most accurately meet the educational needs of students through the funding of education in Colorado." To assist the Interim Committee with its work, FourPoint Education Partners (FourPoint) proposed use of principles-focused evaluation as an analytical framework for use by the Interim Committee to assess and evaluate the effectiveness and efficiency of its school finance and funding system. This evaluation framework draws on a preliminary set of principles identified as desirable for a school finance and funding system by the Interim Committee and other Colorado educational stakeholders. Through our engagement with the Interim Committee Members and other Colorado educational stakeholders, FourPoint identified a preliminary set of nine principles that can be used to assess and evaluate the current school finance and funding system:

1. Align School Finance and Funding to Contemporary Educational Systems, Goals, Objectives, and Learning Contexts
2. Center Allocations Based on Students and Their Characteristics (not organizations/institutions)
3. Provide Every Student Access to Quality Core Learning Opportunities
4. Provide Every Student Equitable Opportunities to Achieve
5. Share Investment in Providing Learning Opportunities to Children of Colorado
6. Make the School Finance and Funding System Transparent and Understandable to Stakeholders
7. Accurately Finance and Fund Learning Needs of Students
8. Maximize Productivity and Efficiency of Learning Resources
9. Locally Control Educational Management and Methods

If the system satisfies these principles in both its design and outcomes, then the Interim Committee might reasonably conclude that the system is designed and functioning well. Conversely, if the system does not satisfy these principles, then the Interim Committee might reasonably conclude that the system is not designed and functioning well.

Information and analyses concerning these principles about the effectiveness and efficiency of Colorado's existing school funding and finance system, including the 11 areas related to school funding and finance in the authorizing legislation, were presented to the Interim Committee throughout the 2017 interim session, the 2018 regular legislative session, and the beginning of the 2018 interim session. Volume I of the Year 1 Report described the analytical approach to be used to assess and evaluate Colorado's current school finance and funding system, including further descriptions of the above-mentioned nine principles. Volume II of the Year 1 Report included data and analyses related to the preliminary set of principles to inform the Interim Committee's assessment and evaluation of the current school finance and funding system. To the extent that the current system is not designed and functioning well, these principles can be used to help design an improved school finance and funding system.

This volume is the third of three volumes that includes the two volumes of the Year 1 Report. This volume (Volume III) includes recommendations based on information and analysis that FourPoint believes would most accurately reflect the educational needs of individual students through the funding of education in Colorado as required by Section 2-2-1902 of the Colorado Revised Statutes, including the identified 11 specific areas related to school funding and finance.

## **INTRODUCTION: PROMINENCE OF COLORADO'S SCHOOL FINANCE AND FUNDING**

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More than \$9.4 billion is expended by Colorado's 178 school districts, its charter schools, and Boards of Cooperative Educational Services (BOCES) in providing learning opportunities to Colorado children. K-12 education made up 19.4 percent of the state's operating budget of \$28.84 billion—the second largest proportion of the operating budget; and 38.6 percent of the state's \$10.62 billion general fund—the largest proportion of the general fund.<sup>3</sup> Colorado's current school finance and funding system was established in 1994 with the passage of the Public School Finance Act of 1994.<sup>4</sup> Every school district's level of funding is determined through formulaic provisions included in this law. With the level of funding set, the law also includes the finance processes, procedures, and provisions by which local school district and the state government share in paying for that level of funding.

Given this prominence in state and local financing and funding, the Colorado Legislature sought to understand how school districts are financed and funded. House Bill (HB) 17-1340 created a legislative Interim Committee to study school finance issues over the course of the 2017 and 2018 legislative interims and make legislative recommendations concerning how to most accurately meet the educational needs of students through the funding of education in Colorado. The list of topics to be addressed, at a minimum, by the Interim Committee is provided in Appendix A.

## **USING PRINCIPLES TO CREATE AN EFFECTIVE AND EFFICIENT SCHOOL FINANCE & FUNDING SYSTEM**

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The Interim Committee is charged with making legislative recommendations concerning how to most accurately meet the educational needs of students through the financing and funding of education in Colorado. Volume I of the Year 1 Report included the principles by which Colorado's existing school funding and finance system could be assessed and evaluated and by which a more effective and efficient system could be designed. This volume includes FourPoint's recommendations to the Interim Committee based on the accumulation of information and analyses presented to the Interim Committee Members that would allow the

them to “make legislative recommendations concerning how to most accurately meet the educational needs of students through the funding of education in Colorado.”

## A. Systems Thinking: FourPoint’s Approach

Systems are considered complex when the system can be described as having many inter-related and interdependent policies, structures, processes, and relationships. Complex systems lack direct cause-and-effect interactions given their inter-related and interdependent components. Certainly, Colorado’s public education system, including its school finance and funding system, satisfy these defining characteristics of being a complex system.

More significantly, a complex system can’t be understood by the functioning of its individual parts. Rather, a complex system can only be understood by the interaction of those parts – how well they fit and work together. The implications of this is that a complex system can’t be separated into its individual parts, have the effectiveness and efficiency of each of those parts improved, and then expect the system to be improved. Traditional approaches to improve school funding and finance systems treat these systems as technical components of a mechanical system that can simply be tweaked with the expectation that the entire system would then be improved. At best, the result of this kind of technical tweaking results in a rearranging of the deck chairs, but does not fundamentally change the design or performance of the system. At worst, the result of this kind of technical tweaking results in a fundamental disconnect from the rest of the education system that causes more harm throughout the system than intended good.

### 1. Effectiveness & Efficiency

Operationally, FourPoint draws on systems thinking principles to define effectiveness and efficiency:

“Peter Drucker said, ‘There’s a difference between doing things right and doing the right thing.’ Doing the right thing is wisdom, and effectiveness. Doing things right is efficiency.”<sup>5</sup>

Russell Ackoff continued his articulation of the difference between effectiveness and efficiency and stated that there can be times that efforts to improve efficiency can deepen the problems of the system:

“The curious thing is the righter you do the wrong thing the wronger you become. If you’re doing the wrong thing and you make a mistake and correct it you become wronger. So it’s better to do the right thing wrong than the wrong thing right.

Almost every major social problem that confronts us today is a consequence of trying to do the wrong things righter.”

Determining the “wrong” and the “right” of the Colorado school finance and funding system requires an understanding of the principles by which such determinations can be made. The principles identified by the Interim Committee and other Colorado educational stakeholders help define what would be considered an effective and efficient system.

## **B. Principles to Design an Effective and Efficient School Funding and Finance System**

Through our engagement with the Interim Committee Members and other Colorado educational stakeholders, FourPoint identified a preliminary set of nine principles that can be used to assess and evaluate the current school finance and funding system:

1. Align School Finance and Funding to Contemporary Educational Systems, Goals, Objectives, and Learning Contexts
2. Center Allocations Based on Students and Their Characteristics (not organizations/institutions)
3. Provide Every Student Access to Quality Core Learning Opportunities
4. Provide Every Student Equitable Opportunities to Achieve
5. Share Investment in Providing Learning Opportunities to Children of Colorado
6. Make the School Finance and Funding System Transparent and Understandable to Stakeholders
7. Accurately Finance and Fund Learning Needs of Students
8. Maximize Productivity and Efficiency of Learning Resources
9. Locally Control Educational Management and Methods

We operate with an understanding of the maxim: every system is perfectly designed to get the outcomes that it gets. If the system satisfies these principles in design, then the Interim Committee might reasonably conclude that the system is designed well. However, simply creating component pieces of the funding and finance system that satisfy these principles does not make for an effective and efficient system. Instead, the fit and interaction of the different pieces with each other within the school funding and finance system AND with the other parts of the public education system is what constitutes a well-designed system that is both effective and efficient in its functioning and outcomes.

The following recommendations are technical components that would improve the effectiveness and efficiency of Colorado’s school funding and finance system if their specific designs and the interactions between the different components with other parts of the school

funding and finance system and other parts of the educational ecosystem were well-specified. The value of a high-functioning system is more than the sum of its component parts. Conversely, a system created by simply combining a series of technical parts is likely to result in something that is neither effective nor efficient in its design or outcomes.

## CREATING AN EFFECTIVE & EFFICIENT SCHOOL FUNDING SYSTEM

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This section includes recommendations to different technical components of an improved school funding (allocation) system. Colorado could realize a more effective and efficient school funding system by strengthening the student-centeredness of its school funding formula.

### A. School-Generated Revenues Distributed to Colorado's School Districts

Colorado's current school funding formula is based entirely on district-level enrollments and district characteristics. To improve the effectiveness and efficiency of the system, and to improve the accuracy of meeting the educational needs of students, FourPoint recommends first generating funding at the school level using a combination of student, school, and district characteristics. In doing this, every school community would know an approximate level of funding that the state might expect to be deployed and expended given the student, school, and district characteristics in their schools.

The federal Every Student Succeeds Act requires expenditures to be reported at the school level. While this type of transparency may provide some helpful information, the reported data, by themselves, lack context for interpretation. School level-generated funding levels would provide additional context to stakeholders about one way that funding levels could be determined for any given school given the characteristics of the students, school, and district. This additional context would allow stakeholders to compare "generated" funding to "actual" funding and expenditures.

### B. Base Funding Level

The foundation of a high-quality student-centered funding system is the base funding level afforded to every student in the public education system. The base funding level, at a minimum, reflects the monetary value of core learning resources available to every student. While this may include a teacher in a PK-12 school setting, these resources might also be

available through individualized learning opportunities made available through online learning platforms, a professor in an early college or dual-enrollment setting, or the facilitated and coordinated space of work-based learning, apprenticeships, or certification programs.

FourPoint recommends different base funding levels for students in different grade levels—preschool and Kindergarten, grades 1-5, grades 6-8, and grades 9-12. Funding for preschool and Kindergarten should reflect the greater intensity of core learning resources, e.g., lower expected pupil-teacher ratios. To more accurately reflect the student needs, FourPoint recommends that policymakers make a definitive decision of either choosing to fund Kindergarten students as 0.50 FTE or 1.00 FTE in the funding formula as the 0.58 FTE used in the current formula does not reflect any type of educational programming for this grade.

The traditional middle school and high school curriculum is delivered through the Prussian model of schooling with different subjects taught at different times of the day by different teachers. Colorado policymakers could choose to continue to have a base funding level for middle school- and high school-level students that reflect this model of schooling. While funding may be generated using the traditional Prussian model of schooling, those funds can be used by local districts and schools to deliver learning opportunities and experiences in any number of ways.

Policymakers can also include core learning support, student support, and basic administrative support services within the base funding level, or they can choose to provide for those resources through other funding mechanisms, e.g., other core funding mechanisms or categorical funding. FourPoint recommends the base funding level include core learning supports (e.g., instructional leadership, curricular materials, etc.), student supports (e.g., guidance counselors), and basic administrative support (e.g., registrar, data reporting).

## C. Economies of Scale

Colorado's current school funding formula uses a size adjustment based on district total student enrollment. Colorado policymakers have more than one way to address diseconomies of scale associated with low numbers of enrolled students (see Figure 1).

**Figure 1. Adjusting for economies of scale**

	SCHOOL	DISTRICT	SCHOOL & DISTRICT
ADJUSTMENT ATTRIBUTES	For small schools (low enrollment) to more directly acknowledge the need to provide core learning, learning support, student support, and basic administrative support.	For small districts (low enrollment) to accommodate higher per-pupil costs for all school and district services. Missing direct connection to core learning, learning support, student support, and basic administrative support needs in individual schools.	Adjustments for both small schools (more direct acknowledgement of school-level services) and for small districts (specifically adjusting district-level costs)

District-level size adjustments are designed to protect and perpetuate the organizational operations of small school districts. While there are many administrative tasks associated with the public education enterprise, Colorado policymakers are presented with the question of how those costs are recognized and provided for in the funding formula. Currently, these central administrative costs are included in the base funding level on a per-pupil basis and then adjusted upwards given smaller numbers of students. In doing so, the State of Colorado is helping to make an educational management decision and has a funding mechanism to support that decision that has the effect of protecting and perpetuating 178 school districts.

FourPoint recommends using a school-level size adjustment rather than the current practice of using a district-level adjustment. A school-level adjustment more directly recognizes the increased per-pupil funding levels to ensure the provision of core learning, learning support, student support, and basic administrative support services. This would result in having an equal funding amount provided to every student for district-level services (adjusted for cost-of-education differences across the state). If local communities wanted to maintain the current operational scale of their school districts, local financing can be used to raise the necessary revenues to do so. This would have the effect of aligning funding to local control of education management to financing.

### **Limiting size adjustment to necessary small schools**

In clarifying our recommendation to move to a school-level size adjustment to accommodate economies of scale, FourPoint recommends limiting the school-level size adjustment to those schools that are small because of low population density in communities. There are many schools that are small by choice in Colorado, small schools in small districts in high-density population centers. Again, if local communities in high-density population centers that have small schools out of choice, local financing can be used to raise the necessary revenues to do so. This would have the effect of aligning funding to local control of education management to financing.

## **D. Funding for Strengthening Learning Opportunities & Experiences**

Colorado's current funding formula includes funding for "at-risk" students who are, for the most part, identified as those students eligible for the federal free-lunch program. FourPoint recommends redefining at-risk funding to funding to strengthen learning opportunities for those students who have not had high-quality prior learning opportunities, experiences, and supports. While there are many students who arrive at school having had high-quality prior learning opportunities and experiences (in school and out-of-school), a growing number of students arrive at school without these types of prior learning opportunities, experiences, and supports—primarily out-of-school—through no fault of their own because of economic, health, family, and community conditions and contexts.

In redefining this funding mechanism, FourPoint also recommends use of an unduplicated count of students who have at least one of the following characteristics associated with conditions and contexts that typically present learning and learning support challenges. An unduplicated count means that even if a student has more than one of the condition and context indicators, they are only counted once for purposes of generating funding. The condition and context indicators that could be included for funding are: eligibility for the free- or reduced-lunch program (an addition of reduced-lunch eligibility); English learners; special education; homelessness; migrant; expelled; foster; and refugee students. Low-incident, high-cost special education students would still be funded through a separate mechanism apart from formula funding.

As a complement to the core learning opportunities and experiences provided for through the base funding amount, these funds provide for learning opportunities and experiences such as small learning groups (8-12 students) to allow for differentiated instruction and very small learning groups (1-4 students) for intensive instructional interventions. These funds also provide for supplemental learning materials and additional professional development for

learning activities. Finally, these funds provide for supplemental student support services such as counselors, social workers, and/or mental and physical health practitioners.

#### **The alternative to categorical program funding.**

FourPoint recommends moving funding for move funding for strengthening programs vulnerable students to within-formula funding. However, this recommendation is made with the caveat that the state create an infrastructure to research and evaluate the strategies that schools and districts are choosing to serve these students, the resources being deployed, and the effectiveness of those educational choices.

#### **When to use categorical program funding.**

There is a role for categorical program funding in state school funding systems. As new challenges arise, policymakers can use categorical program funding to address the issue along with a dedicated research and evaluation agenda attached to those programs. As the programs are being designed, clear outcomes of the program should be articulated so that practitioners, policymakers, and the public can understand if and how the funds made available had their intended impacts.

Traditional categorical programs are designed to be restrictive in the types of educational programming activities that can be pursued or the ways that program funds can be used. FourPoint believes schools and districts should have wide latitude in pursuing solutions to education's chronic and persistent challenges as there are no one-best-solutions to be implemented. With that said, the blind faith that locals know how best to solve these challenges is equally misguided to the state knows best.

FourPoint recommends structuring categorical programs with a “permissive” design that provides local educators and communities maximum flexibility to meet the intended goals of the program. Each school and district that receives funding must create a robust theory of change, including a theory of action of how those funds will be used towards accomplishing the intended outcomes. Each categorical program would also have funds dedicated to the monitoring and evaluation to determine how funds are used, how resources are deployed using the theory of change as a reference, and how effective those resources were in accomplishing the intended outcomes.

### **E. Cost-of-Education Adjustment through a Comparable Wage Index**

Colorado currently uses a district-level cost-of-living adjustment applied to personnel costs in the funding formula. This type of adjustment is not unique to state school funding formulas. To improve the accuracy of meeting the educational needs of students, FourPoint recommends using a comparable wage index rather than a price index. A comparable wage index is superior

to a price index in recognizing the different costs of labor across the state. Price indexes, like the federal Consumer Price Index, identifies the prices of a basket of household goods. While these can be beneficial in understanding the differences in the prices of those household goods across geographic locations, their real benefit is in tracking the prices of those household goods over time to measure inflation.

Comparable wage indexes, on the other hand, are direct measures of the salaries and wages being paid for similarly educated and tasked workers across geographic locations. There are comparable wage indexes readily available to be used by Colorado policymakers for every school district in the state. This comparable wage index could be applied to the personnel portion of the funding as currently estimated.

If the state wanted to get extremely fine-tuned, FourPoint would recommend calculating what percentage of expenditures were associated with certified personnel (e.g., teachers, principals, etc.) and what percentage of expenditures were associated with classified personnel (e.g., secretarial, maintenance, bus drivers, etc.). Separate comparable wage indexes can be constructed for each personnel type.

Finally, Colorado's funding formula does not make any adjustments to the non-personnel portion of funding (e.g., educational supplies and materials, maintenance and grounds keeping supplies and materials, administrative supplies and materials, utilities, etc.). To increase the accuracy of meeting educational needs of students, Colorado policymakers could choose to adjust these non-personnel funds through the construction of non-personnel cost indexes.

## CREATING AN EFFECTIVE & EFFICIENT SCHOOL FINANCE SYSTEM

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This section includes recommendations to different technical components of an improved school finance (revenue-generation) system. Colorado could realize a more effective and efficient school finance system by streamlining the financing mechanisms that would also have the benefit of making the system more understandable. The challenge to creating an effective and efficient school finance system is that most the entire system is governed by Colorado Constitutional requirements such as the Gallagher Amendment and the Taxpayers Bill of Rights (TABOR) and any changes would require direct approval by Colorado voters.

## A. Required Minimum Mills to Local Share

Each of the 178 school districts in Colorado is required to contribute to the total revenues to pay for the amount of funding generated by state's school funding formula. This local share is primarily paid for through assessed mills on local residential and commercial property. Local share of financing district funding levels is dependent on variable mills on residential property across every school district. That is, every school district has its own required number of mills that must be assessed to finance its local share, artifacts of an old school finance system.

One of the biggest arguments against the tax provisions in Initiative 73 that would raise revenues for Colorado public education is that the multiple tax rates breaks from longstanding Colorado tradition of a singular tax rate. As the current school finance system operates, there is not a singular tax rate (number of mills) assessed on residential properties across the state.

FourPoint recommends that the state policymakers and voters pursue required minimum mills to satisfy the local share requirements of financing public education. Putting in place a required minimum number of mills across the state would require a change to the Colorado Constitution. If the revenues generated exceeded the total funding levels generated by the school funding formula, the excess would be returned to the taxpayers in that district.

## B. Suspend TABOR Revenue Limits in the Presence of the Negative Factor

An estimated \$250 million to \$300 million will be paid to the State of Colorado as a result of changes in federal tax policy. This increase in revenues moves the state closer to TABOR revenue limits that would necessitate refunds to Colorado taxpayers. Colorado's positive economic growth that brings with it increased state tax revenues also moves the state closer to those TABOR revenue limits. At the same time that the Colorado Legislature may have to provide tax refunds to its taxpayers, the Colorado Legislature has maintained a sizable Budget Stabilization (Negative) Factor that keeps the state from financing its full share of Total Program Funding.

FourPoint recommends that Colorado policymakers and voters pursue a suspension of TABOR revenue limits so long as the Legislature has a Negative Factor in place with the total amount of the estimated refunds to be directly applied to the Negative Factor or to PERA unfunded liabilities.

## OTHER SYSTEM CONSIDERATIONS

### A. Cost Benefit Analysis

One of the areas to be studied by the Interim Committee was the costs and benefits of the requirements imposed on Colorado school districts and public schools by state and federal laws, and the relative value of and return on resource investment across the time frame of a student's education career. Given the statements by officials from the Colorado Department of Education, every school district will be able to report school-level expenditures according to their own standards to comply with Every Student Succeeds Act (ESSA) requirements. That is, the Colorado Department of Education, at this time, will not have a standardized way that districts report school-level expenditures. Where the principle of local control of educational management is strong in Colorado, that should not extend to measurements that require consistency and validity.

As a result, district-to-district comparisons about the cost-effectiveness of educational programming will be uninterpretable. Moreover, and perhaps more fundamentally, reporting of school-level expenditures is not typically done according to the resources deployed for specific educational programs (e.g., general education, interventions, special education, etc.) and the designed and implemented strategies reflected in those programs. In order for the State of Colorado to have a better understanding of the costs and benefits of its investments, the State will need to commit to a statewide research agenda that pursues understanding of the funds deployed, the strategies pursued, the resources engaged, and the mechanisms by which those educational resources relate to measures of student learning and other educationally related outcomes.

### B. Transportation Funding

The interim committee is required to identify strategies for funding transportation for students enrolled in all public schools in a manner that can be included within the school finance funding formula, including consideration of total mileage traveled on a per-pupil basis.

### C. Determining Enrollment

FourPoint recommends maintaining the current enrollment counts for determination of funding for schools and districts. While there may be some incentives created for school districts to pay more attention to student attendance by using average daily attendance, student attendance is

partially impacted by factors beyond the direct control of schools and school districts. As with any accountability mechanism, there should be strong alignment between those things that schools are being held to account and the control they have in affecting those measures.

## D. Capital Construction Needs

FourPoint recommends maintaining the current system of assisting Colorado's school districts with capital construction needs.

## E. PERA Fundamental Change

Through the data and analyses presented to them, the Interim Committee recognized that an increasing amount of state and local educational expenditures are being made towards paying down the unfunded liabilities of retiree benefits. The result is that revenues and expenditures for education are increasing, few of those dollars are being seen by active teachers in the form of increased salaries leading to disconnect. The unfunded liabilities of the PERA system threaten the effectiveness and efficiency of the school funding and finance system (however transformed) and threaten the effectiveness and efficiency of the entire public education system.

## F. Phase-In of Funding and Finance System Recommendations

The construction of a transformed school funding and finance system might require new funds to be allocated to school districts that are greater than the current revenues allow. This is not reason to do forego the opportunity to implement a more effective and efficient school funding and finance system. FourPoint recommends using a phase-in approach whereby new revenues are directed to be allocated according to the new system's specifications.

## REFERENCES

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