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STUDENT-CENTERED FUNDING AND ITS IMPLICATIONS FOR COLORADO

A PRIMER FOR POLICY MAKERS

Author: Mark Fermanich and Kelly Hupfeld

Buechner Institute for Governance
School of Public Affairs
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This report was researched and written by Mark Fermanich, a consultant in education finance, and Kelly Hupfeld of the Center for Education Policy Analysis in the School of Public Affairs, University of Colorado Denver. CEPA provides research, analysis, and staff support to policy makers in Colorado and nationwide as they look for innovative ways to improve public education.

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EXECUTIVE SUMMARY

The United States spends huge amounts of money on public education at all levels of government – federal, state, and local. However, there is a general consensus that the structure of K-12 school finance, developed in a different era and with different expectations as to system outcomes, is not meeting the needs of the students of today. In the new global economy, it is unacceptable for large numbers of our students to fail to master basic skills and to drop out of high school. But many of our public education system mechanisms, including school finance, were established in a time when not all students were expected to succeed academically.

While there is some consensus as to the overall shortcomings of school finance, there is no consensus as to the most effective way to reform school finance so that it will support our new expectations. Trends in school finance reform have swung from increased federal investment to supplement the education of students with additional needs (such as Title I aid for schools with large numbers of poor students), to emphasizing the need for equity in spending between school districts, to the adequacy movement's push to quantify the amount of funding required to meet NCLB-driven student performance expectations, to current questions about the efficiency of education spending. No one funding approach has been shown to be a "silver bullet" for consistently supporting higher student achievement.

What we are calling "student-centered funding" (SCF) is a reform concept that recently has risen in visibility, driven by the work of national scholars and thought leaders such as Paul Hill, William Ouchi, Allan Odden, and Chester Finn. This reform goes by many names and varied implementations – such as weighted student funding, fair student funding, site-based budgeting, and student-based budgeting – but its central concepts typically revolve around the idea that the distribution of funding should depend upon the needs of individual students and should in some way follow those students to the schools they attend, where the schools may make resource decisions that benefit the students directly.

Student-centered funding in a nutshell

- *Allocates resources based on individual student needs*
- *Resources follow students to the schools they attend*
- *Schools are empowered to make decisions about the use of resources for the benefit of students*

The logic model underlying this theory may be described as follows: Student achievement will improve if the schools serving students (1) receive funding in amounts that reflect the specific needs of the students at the school and (2) school staff has the expertise and authority to make informed decisions about spending that will directly address the individual needs of students. By driving resources closer to student needs, student-centered funding theoretically creates a funding environment that more directly benefits students. Advocates also argue that schools need control of their resources in order to improve their offerings more quickly, and also to be able to fairly respond to the demands of being held accountable for student learning. Teachers who are able to make relevant decisions about curriculum and instruction should feel more empowered and effective, leading to higher job satisfaction and more effective teaching. Finally, since funds flow where they are needed most (rather than being attached to the most experienced and expensive teachers in the district), vertical equity is achieved among schools in the district.

One of the leading advocates for SCF, the Thomas B. Fordham Institute, published what it called a “manifesto” on the subject in 2006: “Fund the Child: Tackling Inequity and Antiquity in School Finance.” Signed by numerous education luminaries, Fordham’s report asserts that the current system of school finance is broken, as evidenced by funding inequities between school districts and among schools within districts. The report advocates for a system of weighted student funding that is based on the following principles:

1. Funding should follow the child, on a per-student basis, to the public school that he/she attends.
2. Per-student funding should vary according to the child’s need and other relevant circumstances.
3. It should arrive at the school as real dollars (i.e., not teaching positions, ratios, or staffing norms) that can be spent flexibly, with accountability systems focused more on results and less on inputs, programs, or activities.
4. These principles for allocating money to schools should apply to all levels (e.g., federal funds going to states, state funds going to districts, districts to schools).
5. Funding systems should be simplified and made transparent.

Recently, advocates have taken these concepts further and added principles of continuous learning and accountability. Once we know where the funds go, we should track the relationship between spending and student outcomes, and hold schools and districts responsible for spending wisely to achieve these outcomes.

For example, the School Finance Redesign Project at the Center for Reinventing Public Education recently completed its six-year study of school finance by issuing a final report that compared the current system of funding education to an obsolete computer "that has become so laden with applications, one added on top of another over the decades, that it can no longer do anything well." Authors Paul Hill, Marguerite Roza, and James Harvey (2008) argue that we are asking our current system to do things it was never designed to do. In addition, our current funding system has conflicting mandates and is opaque to the extent that it is difficult even to ascertain where funding goes, leaving us blind in terms of assessing the value of various expenditures and making rational decisions about where to spend limited resources.

Hill et al. advocate for a four-part action plan that focuses on student-centered funding:

1. Drive funds to schools based on student counts—the money would be given to principals and school level teams to allocate and manage within their individual schools. A weighting formula could be used to provide extra funds for disadvantaged students.
2. Keep linked data about uses of funds and results. Concentrate federal funds on low-income students—direct money on the basis of student characteristics right down to the individual student's school.
3. Redesign states' school finance systems for continuous improvement—demand innovation and continuous improvement, keeping what works and discarding what does not.
4. Base accountability on performance—make superintendents and the chief of state schools responsible for judging school performance and finding better options for children whose schools do not teach them effectively.

Another group working with the School Finance Project, the National Working Group on Student Learning, concluded that our current finance system is not effective because it is not focused on student learning. The key to fixing the system is embedding a system of continuous improvement within it, so that the system has the following characteristics:

1. Allow dollars to follow students to their schools.
2. Integrate resource decisions with instructional plans; measure and analyze the results of different expenditures.
3. Actively support continuous improvement in student learning.
4. Define and fund a research and development agenda that expands what we know about effective resource use.
5. Make resource use and academic achievement central to financial reporting practices, and use funding contingencies to create fair and meaningful accountability.

In short, the evolution of thinking about student-centered funding systems has led to these common threads: the need to personalize education through strategies such as school-based decision-making about the use of resources; supporting continuous improvement through analysis of data; and holding the system accountable for both student learning and sound management.

Student-centered funding is not a panacea, nor is it an "easy" reform. It represents a significant change from current practice, requiring administrators, principals, and teachers to do things differently and to have the capacity to do these things effectively in the service of student learning. In addition, there is no research that directly connects the implementation of an SCF system with improved student achievement. Simply putting an SCF system in place will not guarantee that improved student learning necessarily follows.

However, if done well, student-centered funding may allow us to learn more about the factors that do impact student achievement. Today, huge amounts of money are spent on education, but we don't have very good information about what expenditures are connected with student achievement. As Hill et al. (2008) argue, the greatest benefit of a student-centered funding system may be the increased funding transparency that results. Knowing what we spend money on in education, down to the individual student level, should provide more data to allow cost-benefit analyses of various educational approaches. As we learn more about the effectiveness of spending on different aspects of education, we can begin a process of continuous improvement that supports the expansion of approaches that work and eliminates approaches that do not work.

There are both opportunities and challenges for Colorado if we seek to explore moving to a more student-centered funding system. First, our current system does have some elements that are consistent with the goals that have been described by SCF advocates. We even have two districts, Denver Public Schools and the Poudre School District, that are actively transitioning to SCF systems. However, the experiences of other districts with SCF systems have shown that there are significant political and capacity hurdles that must be addressed if such a system is to be successful. It is also important to note that our current system was designed to promote certain values, namely fiscal accountability and equity. If we move ahead with a system designed to produce greater flexibility, innovation, and effective use of resources, we will need to be careful not to lose sight of other equally important values.

We make five recommendations for Colorado policymakers to consider:

> **Adopt a statewide vision for school funding**: As Colorado considers revising its school finance system, it must first begin with the end in mind by clearly stating the performance expectations that will apply to the new system. This vision can then guide subsequent decisions about design parameters and operational details.
>
> **Provide state-level incentives for student-centered funding**: Colorado districts are already free to adopt versions of SCF, as Denver and Poudre are

showing. The state should consider ways to accelerate the ability and motivation of other districts to explore similar redesigns. However, a state-mandated one-size-fits-all approach may do more harm than good, since the needs of students, schools, and districts vary so widely across the state.

Provide support for school and district capacity-building: The logic model underlying SCF assumes school leaders with the willingness and ability to make significant decisions about resources for the students in their buildings. Because our current system is not set up for such local decision-making, the majority of school leaders do not have any training or experience in this area. District leaders will also need assistance in thinking about the changing role of the district in an SCF system, such as the best ways to support schools in local decision-making.

Implement a data system that allows for effective allocation of resources: As the recent reports on SCF make very clear, our data collection and reporting systems are not set up to allow meaningful comparisons about the effects of spending on student outcomes. To realize the promise of SCF in terms of its potential ability to focus resources effectively on individual student needs, our fiscal data systems must be integrated with other data on instructional outcomes and effectiveness.

Ensure that education spending is accountable, equitable, and adequate: Finally, policy makers must keep in mind that the state, districts, and schools are accountable to taxpayers for the use of education funds, so any SCF system must also allow for responsible tracking and reporting on revenues and expenditures. While SCF is intended to increase equitable outcomes for individual students, and funding amounts may vary by student need, they should not vary by features such as geographical location or community tax capacity. And SCF does not resolve the question of whether our education spending levels are adequate to ensure the success of every student; instead, we hope that SCF can help us better understand how to derive the answers.

INTRODUCTION

As Colorado and other states are starting to conclude that changes may be necessary to the way in which we fund public education, we should consider the arguments offered both in favor of and against transitioning to student-centered funding, and make an informed decision about what is right for our students. In the 2009 legislative session, Colorado's General Assembly decided to convene an interim committee on school finance (HJR 09-1020). This report is intended to provide the interim committee with a basic background of our current system of financing public education in Colorado, and to discuss potential implications of introducing student-centered funding to the state.

The first part of this report describes the operation of our current system. Our state's system of school funding, in terms of equity, flexibility and limitations, is comparable to the systems of most other states, and built to address certain policy concerns. This system is marked by a variety of components, some that arguably meet our current needs and some that arguably do not. We compare our current system to a student-centered funding system, identifying those aspects of the current system that are consistent with SCF and those that are not.

The second part of this report provides examples of how student-centered funding has been designed and implemented elsewhere; and discusses the current research on the effects of student-centered funding. The final section of this paper discusses challenges and opportunities that Colorado could see as it considers implementing some form of student-centered funding, and makes recommendations for Colorado policy makers to consider moving forward.

PART I – SCHOOL FINANCE TODAY

Student-centered funding would represent an enormous change to the present system of funding education. In the traditional model, the state has primary (and constitutional) responsibility for funding the public education system, supplemented by federal funds targeted at specific needs and policy priorities. At the state level, the combination of state and local funds distributed to districts is based on a legislatively mandated funding formula that provides funds to the district based on district characteristics and student populations.

School districts then allocate funds to individual schools in the district based on district policy. Districts overwhelmingly choose to allocate funds to schools through staff positions assigned to individual schools, based on a student-staff ratio calculation. The district will also typically retain part of the funding to provide centralized services to schools, such as professional development, special education services, transportation, and general operations that support all schools in the district. School principals generally have control over a relatively small amount of the budget allocated to their schools. Federal funds are usually distributed according to a highly routinized formula, and must be spent for their legislatively mandated purposes.

This type of funding system is highly centralized, relatively predictable, and relatively stable. It also is intended to account for the disbursement and allocation of significant amounts of money. At the district level, the distribution of funds to schools based on staffing ratios and programs allows the district to set certain minimum requirements for quality and theoretically to track funds in ways that will allow the district to be accountable to the state and to federal funding programs. Accountability is a core value in publicly-funded programs.

However, this system's strengths are strongly related to its weaknesses. For example, the predictability of revenue streams and funding objects means there is little flexibility in the system to divert resources elsewhere. In addition, what the system funds does not seem to be related in any clear and significant way to student outcomes, other than in a very general and essentially unproveable sense. Ironically, the highly structured accounting systems that are in place often do not provide a clear picture of what funds are actually being spent for what purposes. As a result, it is very difficult for districts and schools to use funds in a strategic way; to experiment with different allocation strategies; or to divert funds away from strategies that are not working and towards strategies that are working.

School finance as it exists today is the result of multiple reforms over the years. For a history of school finance in Colorado prior to the passage of the School Finance Act of 1994 (which is the basis for our current system), see Appendix A. This section describes the state's current funding structure, and discusses its strengths and weaknesses with respect to the goals of public education today.[1]

Districts and schools receive revenues from several primary sources, with the bulk of funding coming from the School Finance Act. Others include state and federal grants and private sources such as foundation and local fundraising. Appendix C provides a comprehensive, though not exhaustive, inventory of state, local and federal funding programs. The focus of this report is on public revenue sources, in particular those provided through the state's School Finance Act of 1994.

The School Finance Act of 1994

First enacted in 1994 and implemented the following year, the School Finance Act of 1994, although amended numerous times over the past 15 years, still forms the basis of Colorado's school finance system. The 1994 Act discarded the contentious setting categories of the 1988 Act (see Appendix A for a description of the 1988 Act), instead

[1] Although not the focus of this report, no discussion of school finance in Colorado would be complete without including the state constitutional and statutory provisions on taxes and spending that impact school finance either directly or indirectly. A description of these provisions may be found in Appendix B.

accounting for the unique characteristics of individual districts and students. The following provides a description of the various elements of the 1994 Act. [2]

Total Program Funding. Total Program comprises the largest share of school district funding, providing districts with most of the general revenues required to pay for the salaries of teachers and administrators, purchasing instructional materials and equipment, and operating and maintaining school buildings. The formula begins with a minimum per pupil foundation amount, called the Statewide Base, which is applicable to all districts. The Statewide Base in 1994-95, the first year under the 1994 Act, was $3,390. In 2008-09 the Statewide Base was $5,270.13 and in 2009-10 it will be $5,507.68.

The Statewide Base is then adjusted on a district-by-district basis for certain district-specific characteristics such as the differences in school personnel and nonpersonnel costs, cost-of-living, and the size of enrollment in the district. A district's adjusted per pupil foundation amount is then multiplied by the number of pupils to determine Total Funding.

A district's Total Program funding is the sum of Total Funding plus funding for At-Risk and On-Line students. The At-Risk formula provides additional funding for low-income students, defined as students eligible for free lunch under the federal School Lunch Act program and certain students who are English language learners. The formula is designed to provide higher levels of funding per at-risk student in districts with concentrations of low-income students greater than the state average. On-line funding supports students who participate in multi-district on-line education programs. In 2008-09 the amount per On-Line student was $6,355 and in 2009-10 it will be $6,641. Students in single district on-line programs are funded the same as other students in the district.

<u>Total Program Funding</u>

Total Funding

=

Funded Pupil Count

x

[(Statewide Base x Personnel Costs Factor x Cost of Living Factor) + (Statewide Base x Nonpersonnel Costs Factor)]

x

[2] The information for much of this section is drawn from *Understanding Colorado School Finance and Categorical Program Funding* by the Colorado Department of Education and the Legislative Council's *School Finance in Colorado*.

District Size Factor

Total Program Funding

=

Total Funding + At-Risk Funding + On-Line Program Funding

Pupil Count. A district's funded pupil count consists of the number of pupils enrolled on October 1 of the school year being funded. Preschool students are included in the count as 0.5 of a student to reflect funding for a half-day program for at-risk 3-5 year-old children (the total number of preschool slots funded in 2008-09 was capped at 20,160). Beginning in 2008-09, the count for kindergarten students was increased from 0.5 to 0.58 to begin the phasing-in of additional funding for full-day programs.

Districts with declining enrollment have the option of cushioning the financial impact of fewer funded students by using the greater of two- to five-year averages of the October enrollment count for funding purposes.

Determining State and Local Shares of Total Program Funding. Allocating Total Program funding between local and state shares is accomplished by calculating local property taxes plus specific ownership tax receipts and subtracting this amount from Total Program funding. If local taxes raise enough money to fully fund Total Program revenue, then state aid to the district equals the minimum aid amount of $119 per pupil. If it is not, state aid makes up the difference. The mix of state and local shares varies widely among districts, but on average the state share accounts for 64 percent of Total Program revenue and local share 36 percent. In 2008-09 the state's share of Total Program totaled $3.4 billion and the local share $1.96 billion.

State Share = Total Program Funding – Local Share

Categorical Funding Programs. Districts also receive categorical funding for certain special program costs. These include special education, English language proficiency, gifted and talented education, vocational education, small attendance centers, and transportation. In districts with very high local property wealth (in 2008-09 only one district qualified) local property taxes may exceed the amount needed to fund Total

Program revenue. In these cases, excess property taxes are used to offset or "buy out" state aid for these programs.

Local Override Revenues. With the approval of voters, a district may raise additional general fund revenue through a levy equal to a maximum of 20 percent of the district's Total Program revenue. This levy is not equalized, providing an advantage to high property wealth districts, who are able to tax themselves at a lower rate to raise revenues. Just over half of all districts have adopted an override levy. Override levy revenues totaled more than $548 million in 2008-09.

Charter School Finance. Charter schools receive the same Total Program per pupil revenue amount as received by the district granting the charter, although the district may retain up to 5% for demonstrated administrative costs. In most cases, charter schools serving students with special needs, such as students with disabilities or English language learners, also receive a proportionate share of state and federal revenues paid to the district for those programs. However, the district and charter school are free to negotiate other service provision and funding arrangements.

Capital/Construction Funding. Most capital construction projects are paid for through

local bonded indebtedness. Under this funding mechanism districts may ask voters to approve issuing bonds to fund capital needs. These bonds are then repaid over time through an additional unequalized property tax levy.

Other sources of capital funding include the Special Building and Technology Fund, under which a district's voters may approve an additional levy of up to 10 mills over three years to pay for capital projects; the Building Excellent Schools Today (BEST) program which uses state-backed lease-purchase agreements to fund capital projects, the Loan Program for Capital Improvements which provides capital loans through the State Treasurer's office; Full Day Kindergarten Capital Construction Grants provided through the State Board of Education to support additional space for full day kindergarten programs (funding for this program was suspended as part of the budget balancing process in the 2009 legislative session); and Charter School Capital Construction Funding, which is available to charter schools that are operating in a non-district facility or in a district facility that has capital costs.

How Does Our School Finance System Measure Up?

The underlying structure of Colorado's school finance system has been in place for 15 years, predating new expectations for the state's schools embodied in laws such as No Child Left Behind and the Colorado Achievement Plan for Kids, and in our state's new emphasis on a seamless P-20 education system. When we ask how well our system is working, we must be clear about what we are expecting it to do.

The Colorado Constitution requires the state to establish a thorough and uniform system of public schools. The General Assembly has declared that the current School Finance Act has been enacted for that purpose, and that the "thorough and uniform" requirement means that all districts must be covered under the same finance formula and that considerations of equity require all districts to be subject to the expenditure and maximum levy provisions. These concepts – thorough and uniform, equitable – have driven the design of the current structure, and they are concepts that the state is both legally and morally obligated to adhere to. However, we now expect more of our education system, and correspondingly the expectations of our finance system are changing as well.

This section will address how well our current funding system is doing both in terms of the traditionally understood goals that have driven its design and implementation, and also in terms of the four recommendations for a student-centered funding system that emerged from the extensive work of the School Finance Redesign Project (Hill, Roza and Harvey, 2008). These recommendations, driven by an examination of funding systems in light of our new expectations for education, suggest that a funding system should:

1. Drive all funds to schools based on student counts
2. Keep linked data about uses of funds and results
3. Encourage innovation and experimentation
4. Hold schools and districts accountable for student performance and continuous improvement.

1. Funding follows students and is weighted based on student needs

The School Finance Act's funding formulas for Total Program and most of the categorical funding programs currently generate revenues on a per pupil basis and adjust funding levels for certain student characteristics – both of which are consistent with student-centered funding. However, there is no requirement that the revenues generated by a particular student follow that student to the school where he or she is served or that school principals and/or site councils possess the authority to make key decisions about resource allocation. In most cases, the methods currently employed by districts to allocate resources to schools are less than transparent; and central office administrators, not school staff, control the bulk of those resources. The current system also determines funding at the district level rather than by school or student. Should Colorado decide to implement student-centered funding statewide, it may want to consider exploring calculating funding at the school level so that intradistrict variations in student characteristics may be incorporated in determining per pupil funding levels.

The concept of student need appears in both traditional and student-centered systems. Does the system provide resources equitably to students? Are resources adequate to meet educational objectives? These questions must be addressed no matter what type of system is used – the difference is in the way that systems choose to view and solve these issues.

Implementing a student-centered finance system does not guarantee an equitable or adequate system. Student-centered funding, along with appropriate data systems, can provide greater transparency and better information about the distribution and level of funding. But, questions of equity and adequacy are ultimately determined by other state policy decisions such as how education funding is prioritized among other competing state programs, and how much equalization - the state support for low-wealth school districts - is built into school finance formulas.

The concept of equity, as it is applies to school finance, refers to how well a school finance system provides resources equally across districts, schools and students. Equity in school finance is considered in terms of both horizontal equity, or how equal resources are for students with similar characteristics (treating similarly situated students equally), and vertical equity, or the degree to which more resources flow to students with greater need.

According to the most common statistics used for measuring horizontal equity, Colorado's current school finance system is reasonably equitable. In particular, the state appears to have made significant progress toward its goal of reducing the linkage between districts' local property wealth and per pupil funding levels. Still, according to the most recent edition of *Quality Counts* released by Education Week, Colorado does not compare well with other states, ranking only 29th in the relationship between local property wealth and per pupil spending and 20th for equality of per pupil spending across districts (Education Week, 2009).

Colorado's school finance system does not address another growing equity concern – resource equity *within* districts. This is a concern that student-centered funding systems usually try to address. Because funding is determined at the district level and financial reporting is all done at the district level, there is little readily available information about how equitably resources are allocated among schools within districts. With little accessible financial data on spending levels and patterns at the school level, the state is limited in its ability to hold schools fiscally accountable or to understand the linkages between spending and performance outcomes in schools.

The School Finance Act of 1994 does well in equalizing the per pupil Total Funding portion of the system. This part of the formula is completely equalized through the use of the foundation-style formula, with its calculation of state and local shares. But Colorado does not equalize any other components of the formula, such as override or capital levies used to pay off bonds for capital construction. Without state support for equalizing these levies, districts with greater property wealth have an advantage in persuading their voters to approve these additional sources revenues since this can be accomplished with lower mill levy rates.

This report does not include an analysis of the vertical equity of Colorado's school finance system. However, in most states funding for students who are at-risk of failing or possess other special needs are typically addressed through categorical funding programs. In Colorado, funding for categorical programs has not kept up with need. According to a 2005 analysis by the Legislative Council, Colorado's categorical programs were underfunded by more than $646 million in FY 2003-04 (Legislative Council, 2005).

In school finance, adequacy refers to how well a state's finance system provides the resources required to get all, or nearly all, students achieving at a proficient level or higher. Without adequate levels of funding, schools will not be able to afford the staff, programs and strategies needed to help students achieve proficiency on state standards. However, studies of the effects of increased funding for education suggest that providing additional dollars alone is not sufficient to increase student achievement. Educators must also know how to use these resources effectively to boost student outcomes (Grubb 2009).

In terms of funding adequacy, Colorado currently does not compare nearly as well to the rest of the nation. According to the *Quality Counts* report, Colorado ranked just 40th in per pupil expenditures adjusted for regional cost differences, with per pupil revenues falling $1,449 per pupil below the national average (see also Teske 2005).

Concern over the adequacy of Colorado's school finance system has led citizens, districts and education interest groups to push for more funding for P-12 education. These efforts have resulted in the passage of Amendment 23 in 2000, which guarantees a minimum annual increase in school funding; several adequacy "costing out" studies commissioned by the Colorado School Finance Project, all of which found that Colorado would need to increase spending significantly to reach adequacy; and the *Labato* adequacy lawsuit, brought by the public-interest law firm Children's Voices, which charges that the state is not adequately meeting its constitutional obligations to fund public education (Access Quality Education, 2009).

Some advocates of student-centered funding systems argue that the total amount of spending on education is adequate, but our traditional funding systems use this money inefficiently, leading to the appearance of inadequate funding. Others concede that overall funding may be inadequate, but we will not know whether this is the case until we have made the switch to the presumably more efficient and data-driven student-centered funding system.

2. *Funding linked to results through the use of data systems that track the use of funds and measure outcomes.*

Much of the support, regulation and financial reporting accompanying both state and federal funding programs in Colorado are focused on compliance – ensuring that funds are used for their intended purposes and accounted for properly. Current financial reporting systems may support this compliance effort, but offer little insight into the types and quality of programs and strategies that are funded.

The optimal data system for supporting a student-centered finance system is capable of tracking revenues and expenditures to the individual student and school levels and of providing important information on the types and quality of instructional strategies supported with these funds. Colorado's current finance data system functions only at the district level, preventing any form of comprehensive fiscal analysis or accountability at the school or student levels. The state's financial reporting system also makes use of a traditional chart of accounts for coding revenues and expenditures, such as fund, program and object, which are sufficient for ensuring compliance with financial regulations, but do not provide the rich information needed about the strategies employed or their effectiveness. Without this later information it is difficult to conduct the sort of comprehensive continuous improvement/effectiveness analyses called for in the School Finance Redesign panel's recommendations.

The data systems within the Colorado Department of Education (CDE) do collect a variety of information on schools and school programs, including program offerings, staff characteristics and student achievement (although school budget data are not available). But, these data are not combined and reported in such a way to give policy makers and the public useful information about which approaches are most effective, what their costs are or how resources are allocated. The educational accountability bill passed in the 2009 legislative session calls for just this sort of data system, one that will support "… analysis of the relationship between school district and public school expenditures and program characteristics and effectiveness" (Colorado Session Laws 2009, Chapter 293, p. 1510).

3. Support for innovation and continuous improvement tied to accountability

A student-centered finance system must support all schools to become learning organizations, where school staffs have access to information that tells them where they need to improve and how much progress they are making; supports them in making informed decisions and offers them the flexibility to experiment with new instructional approaches; grants them authority over budgets, staffing and programming; and rewards them for success (Hill, et al., 2008). Colorado's current system does relatively well in some areas and less well in others. The status of the state's data systems was already discussed above; what follows is an examination of how Colorado measures up in two other key areas – flexibility and incentives.

Flexibility. A much lengthier report would be required to provide an in-depth review of the rules and regulations governing the distribution and use of the various state and federal funding streams. The following section is only intended to give readers an overview and general tenor of the flexibility or restrictiveness of Colorado's fiscal system.

In Colorado, more than 90 percent of total state revenues to schools are provided through Total Program dollars, which are the least restrictive revenues flowing to districts. Only about eight percent of state revenues are distributed through categorical and grant programs (funds which must be spent for specified purposes). This represents a much higher rate of unrestricted dollars in comparison to a number of other states, most notably California (Timar, 2006). However, this favorable ratio may be due as much to the fact that Colorado underfunds its categorical programs than to a specific policy supporting greater flexibility in the use of education dollars (Legislative Council, 2005). Nevertheless, from a district perspective, Colorado's finance system provides considerable flexibility in the use of funds, even more so now that the General Assembly eliminated the requirement for districts to reserve $482 per pupil of their Total Program revenue for instructional materials and capital reserve effective for the 2009-10 school year.

Even targeted revenue streams such as At-Risk and the categorical aids for special education and English language learner (ELL) programs have relatively few strings attached in Colorado. In the case of At-Risk funding, state statute only requires that at least 75 percent of the funds be used for either direct instruction or professional development for serving at-risk students (large districts must also use a portion for their ELL programs). Similarly, categorical funds for special education and ELL must be used to serve eligible students, but the regulations do not dictate specific instructional approaches and the per-pupil funding formulas lend themselves to a student-weighted formula approach.

The regulations governing federal revenues, on the other hand, tend to be more restrictive. For most districts the largest sources of federal funds are through Title I, Part A low income and IDEA, Part B special education funds.[3] Title I regulations govern how much money is allocated to districts, how districts must distribute the funds to schools, and how the services supported by the funds are targeted. Schools with fewer than 40 percent of their students in poverty must provide targeted services, meaning that the funds must be used to provide supplemental programming targeted at eligible students. However, this does not preclude other students from benefitting from the service. For example, a school could use Title I dollars to support

[3] A more detailed description of Title I may be found in Appendix E.

an after school program for eligible at-risk students that also provides remedial help for other struggling students.

The regulations for IDEA, Part B funds are similar. These funds must be used to pay for the excess costs (those costs not paid for by other local, state or federal revenues) of services provided to students with disabilities. While these services must be targeted toward eligible students with disabilities, like Title I, other students may also benefit from these services.

Both programs also require extensive financial tracking and reporting to ensure that the funds supplement and not supplant programming normally provided with state and local dollars and that specific maintenance of effort requirements are maintained.

Greater flexibility in using federal funds is available to higher poverty schools, those with concentrations of students in poverty of at least 40 percent or more. These schools are eligible for "schoolwide programs." Schools with schoolwide programs are allowed to consolidate most federal program funds under a single comprehensive school plan for serving all students in the school. This approach allows for more comprehensive strategies for improving teaching and learning throughout a school.

Colorado is also one of 12 states participating in the federal Ed Flex program under which the state is given authority to grant waivers to certain federal program regulations, particularly those that impede local reform efforts. So far, this waiver authority has been used somewhat sparingly, with only a handful of waivers granted each year.

Nevertheless, regardless of how flexible the state's funding system may be, if schools do not have access to the information or authority necessary to take advantage of this flexibility little reform and improvement will result.

Incentives. There is an extensive literature on the value of incentives, both intrinsic and extrinsic, in motivating administrators, teachers and students to invest the amount of effort required to significantly improve instruction and academic outcomes (O'Day 1996). In Colorado, districts are fully funded regardless of their performance, with the state providing no financial rewards for exemplary performance. State law currently includes two small incentive programs for teachers. The first provides a limited incentive for teachers to improve their knowledge and skills through a program that subsidizes the cost of fees for teachers applying for National Board of Professional Teaching Standards certification. Another program enacted in 2008 (HB 08-1386) was intended to provide additional incentives for attaining National Board Certification by offering stipends for teachers earning the certification, but these funds were cut as part of budget balancing efforts in the 2009 session.

There are two awards programs for rewarding high performing schools. The John Irwin School of Excellence Award program provides financial awards of up to $15,000 to schools whose performance on the CSAP is among the top eight percent of public schools in the state. The Governor's Distinguished Improvement Awards program rewards those schools with the greatest longitudinal growth as measured by the Colorado Growth Model. The specific criteria for selecting schools for the later program are yet to be determined by an advisory panel. However, currently neither of these incentive programs is funded through state appropriations, but are instead dependent entirely on gifts and donations.

In 2009, legislators attempted to revise the School Finance Act to reward "District Centers of Excellence," secondary schools that enroll high percentages of at-risk students and achieve at specified levels. The $4.5 million required to fund this program was to have been taken from reductions in district funding for Total Program size and at-risk factors. In an extremely tight budget year, the proposal received interest but was ultimately defeated.

4. *Hold schools and districts accountable for student performance and continuous improvement.*

Colorado possesses an extensive accountability system for districts and schools. The major components of this system are currently undergoing extensive updating, including new state standards that are aligned preschool through postsecondary, a new accreditation process, and potentially new state assessments. However, except for the minimal awards programs noted above, school finance is largely divorced from accountability. The accountability system is also focused almost exclusively on student achievement measures to the exclusion of fiscal accountability, particularly with regard to the efficient and effective use of resources.

Under a student-centered finance system, districts and schools are granted greater authority for using resources in ways they determine are most effective for serving their own students. But the state and districts would be responsible for both supporting districts and schools in identifying and effectively addressing students' needs and in holding them accountable for doing so effectively and efficiently.

Again, the 2009 educational accountability bill (SB 09-163) takes steps toward such a system by directing the CDE to provide technical assistance to districts and schools on research-proven strategies and best practices and by assessing the cost-effectiveness of alternative approaches and strategies. It remains to be seen whether the department possesses the capacity to carry out these responsibilities effectively at its current level of funding.

One area of accountability in which Colorado has been a national leader is in experimentation with alternative teacher compensation plans that tie pay with teacher performance in some way. [4] The state's finance formulas are silent on how districts should pay their teachers, providing districts with the flexibility to design and implement alternatives to the single salary schedule. As a result, a few Colorado districts have been recognized as national leaders in implementing alternative compensation packages. Unfortunately, an incentive plan for encouraging more pilot alternative teacher compensation plans recommended by the P-20 Education Coordinating Council and passed by the General Assembly in 2008 was also a victim of budget cutting efforts in 2009.

In conclusion, Colorado's school finance system was designed largely to address the concerns of the 1970s and 1980s – reducing reliance on local property taxes for funding schools, improving equity among districts, and providing additional resources for targeted groups of students with special needs. However, the system will require significant upgrades to support our schools in meeting today's much higher performance expectations. In terms of funding levels, allocating resources to schools, providing flexibility and incentives, and collecting and reporting data on program effectiveness, the system falls far short.

Colorado's school finance system does possess some foundational elements for supporting student-centered funding. The regulations on state funding streams are relatively flexible and many components of the state funding formula are student-

[4] See *Alternative Compensation: Exploring Teacher Pay Reform in Colorado* at http://www.coloradokids.org/includes/downloads/alternativecomp.final.pdf

based. The emerging accountability and accreditation system envisions some of the data and support systems necessary for supporting continuous improvement and performance-based accountability. However, much work remains to be done on developing more extensive school-level data systems and better tying funding to performance and encouraging innovation through financial incentives.

PART II: UNDERSTANDING STUDENT-CENTERED FUNDING MODELS

In general, a student-centered funding system differs from the traditional system in that money is primarily allocated directly to schools based on individually-calculated student needs, rather than to district programs and staff positions at schools. Typically, schools will be allocated a base amount of funding per-pupil, representing general operating costs for the grade levels served by the school. Then the school will receive additional funds based on the specific characteristics of the students attending the school. For example, it is generally accepted that students from low-income backgrounds, as a group, will need more support and therefore be more expensive to educate than students not from low-income families. A school with low-income students would then receive some additional funding to reflect that difference.

There is no one way of designing a student-centered funding system. In fact, all current examples of SCF systems are different from one another, depending upon decisions about different variables in the system. The following list provides some idea of what design decisions need to be made:

- Where do the SCF funds come from?
    - Does the state allocate funds directly to schools, or does the allocation to schools occur at the district level? Or does allocation to schools occur at both the state and district level?
- What are the variables in the funding formula?
    - What categories of additional student need are included in the allocation formula? What is the appropriate amount of additional funding that should be available for students in each of the categories?
    - Will the formula take into account additional operating costs for smaller schools?
- What does the funding pay for?
    - Should schools receive a base amount of funding to cover operational costs that will be required regardless of student needs? What should that amount be based on?
    - Are there any services that the district should expect to retain at the district level rather than delegating the authority to provide these services to the school? How much funding do these services represent? Will the district "hold back" part of the school funding to cover these services? Can the school receive the "hold back" funding if it chooses to use another service provider?
    - In preparing their budgets, are schools charged for average teacher salaries in the district, or for actual salaries of those teachers employed at the school?
- How will distribution of other funds (federal education funding, other state funding, donations) be accomplished?
- How will individuals and the system be held accountable?
    - How will schools be held accountable for their fiscal management? What protections against mismanagement are in place?

- What is the best way to implement an SCF system?
    - How quickly should the implementation of a student-centered funding system occur? Should it be piloted at a few schools first? Should schools receiving less money under the new system be held harmless? For how long?
    - Should the state make a student-centered funding system mandatory for all districts? Should it make such a system voluntary but provide incentives for districts to adopt the system? What are appropriate incentives?
    - What is the current level of capacity of school staff to make effective decisions about the use of resources in the building? What tools are needed to improve that capacity?

Currently, no state other than Hawaii mandates a student-centered funding system, and Hawaii is unique in that there is only one district in the state, so the state system is the district system. A number of districts across the country have experimented with SCF using very different designs, including two districts in Colorado. Designs vary according to the district's answers to the design questions listed above. Of particular interest are the weights that are assigned to specific student needs. Some advocates suggest that we cannot be precise about the exact amount needed for each student characteristic, so we should simply make the best guess we can in order to provide incentives large enough for schools to want to serve certain students (Fordham 2006). Others argue that we do have sufficient knowledge to make "best" and "second-best" estimates on the additional funds required to meet specific needs (Baker and Thomas 2006b).

This next section will describe the design that is currently being phased-in in New York City, and then discuss new models in Denver Public Schools and the Poudre School District that incorporate aspects of SCF. Colorado's charter schools also provide an example of funding directly to schools for the students they serve. For more examples of SCF across the country, see Appendix F and the districts referenced in Snell (2009).

New York City: Fair Student Funding

Under Mayor Michael Bloomberg and Chancellor Joel Klein, the New York City Department of Education is transitioning from a traditional allocation model to a student-centered model dubbed Fair Student Funding (e.g., New York City Department of Education 2007). A major issue around student-centered funding is the political impact of changing allocations. More senior (meaning more expensive) teachers tend to move towards schools with higher-achieving students (who tend to come from wealthier families), meaning that schools with wealthier students often receive higher levels of funding (as reflected in teacher salaries) than lower-income schools. Since student-centered funding is based on student needs, a shift to student-centered funding usually means that poorer schools will receive more funding than before, and wealthier schools will receive less funding than before. This change is not likely to go unnoticed by wealthier parents, and the district may have large political opposition to the switch if the transition is not carefully handled.

New York is dealing with the transition by ensuring that schools that would have received more money under the traditional system receive a "hold harmless" allocation, and schools that would have received less receive Incremental Funding towards their ultimate FSF allocation. Unfortunately, recent budget problems are slowing the process down even further.

The FSF formula provides schools with base allocations depending on grade level, a relatively common characteristic of SCF designs. For the 2008-09 school year, high schools received base allocations of $4,064 per student; schools serving students in grades 6-8 received $4,262 per student; and schools serving grades K-5 received $3,946 per student. In addition, FSF applies the following weights, some of which are based on student characteristics and some of which are based on the characteristics of programs located at schools:

Purpose	Category	Weight	Additional amount per student
Academic intervention	Poverty	.24	$924
	Achievement in grades 4-5 well below standards	.40	$1, 578
	Achievement in grades 4-5 below standards	.25	$986
	Achievement in grades 6-8 well below standards	.50	$1,974
	Achievement in grades 6-8 below standards	.35	$1,381
	Achievement in grades 9-12 well below standards	.40	$1,578

	Achievement in grades 9-12 below standards	.25	$986
English language learner	K-5	.40	$1,578
	6-8	.50	$1,974
	9-12	.50	$1,974
School portfolio	Career and technical education – nursing	.26	$1,026
	CTE – health/trade/technical	.17	$671
	CTE -- Business	.12	$473
	CTE -- Home economics/arts	.05	$197
	Specialized academic program	.25	$986
	Specialized audition program	.35	$1,381

In addition, special education weights allocate funding to schools based on the number of filled and unfilled seats at the school reserved for children with varying levels of need and integration into regular classrooms.

New York City also provides Children First funding that goes directly to principals. Principals can use this money to purchase services from the district or other providers, and can use any leftover money at their discretion to serve their students.

Denver Public Schools: Student-Based Budgeting

The Denver Public Schools began transitioning to a student-based budgeting (SBB) system in 2007-08, a move supported by community advocates (MOP 2006). DPS' 2009-10 SBB system relies more on staff allocations than do other student-centered funding systems described in this report. Funding shortages appear to have short-circuited plans to continue expanding the SBB system (Denver Public Schools 2009b).

Under SBB, schools receive base per-pupil funding depending on the grades they serve, and are free to use this funding in any way they choose. For the 09-10 school year, according to DPS' Budget Guidance Manual for Schools (2009a), elementary schools receive $3,335 per student, K-8 schools receive $3,379, middle schools receive $3,278, 6-12 schools receive $3,332, and high schools receive $3,181. An additional upward adjustment is made for small schools. DPS allots $134 per free lunch-eligible student in K-8 and middle schools, and $70 per free-lunch eligible students in schools serving grades 6-12 and high schools. This funding reflects the "at-risk" funds allocated to districts under the School Finance Act, so schools are directed to spend at least 75% on direct instruction and/or staff development as mandated by the act. DPS also passes along to schools the School Finance Act's undifferentiated allocation of $193 per student for "instructional needs." Expenditure of these funds is limited to the programs listed in the Act.

Student categories of need that are often translated into weights in other districts using student-centered funding are still tied to staff allocations in DPS. By doing this, the district reveals a perceived need to centralize decisions about certain students and their needs. For example, depending on the schoolwide level of need for English language learners, special education students, gifted and talented students, and special services such as nursing and mental health services, schools are allocated staff ratios of specialists in these areas. Schools are not allowed to convert these staff positions into other resources.

DPS makes additional funds available to schools identified as underperforming, in need of targeted interventions, or having magnet programs. These dollars go to the school in a lump sum, with DPS providing guidelines as to permissible areas of spending.

Schools receive funding on a school-based level from other sources as well. For example, some schools receive mill levy proceeds targeted for elementary arts programs, textbooks, facilitators, and library books and technology. Some schools also receive federal Title I funding.

The district also provides additional per-pupil allocations to increase the base amount, the free-lunch student allocation, and for students who are gifted/talented and have mild/moderate disabilities. However, use of these funds is fairly restricted and may be offset by some of the other allocations described above.

Poudre School District: Student-Based Budgeting

The Poudre School District, serving Fort Collins and surrounding areas, began implementing Student-Based Budgeting in the 2007-08 school year.[5] The district decided to transition to a new system after an examination of its previous system, based on staff allocations, showed that funding inequities resulted from the system. The district worked with teams of principals, district staff, and parents to investigate options for a funding system that allocated funds to schools based on student and school characteristics. In the 2009-10 school year, funding from Student-Based Budgeting is allocated as follows:

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[5] The information about the Poudre School District was obtained through the school district's website at www.psd.k12.co.us and through a personal telephone conversation with Superintendent Jerry Wilson and Business Manager Dave Montoya on Jun 16, 2009.

	Weight	Dollar equivalent per student
Base funding	1.0	$3,530.51
Gifted and talented	.10	$353.05
English language learners	.20	$706.10
At-risk (free lunch eligible)	.20	$706.10
Both ELL and at-risk	.25	$882.63
Primary-level school (K-3)	.14	$494.27
School size	Varies	varies
Geographic (isolated areas)	.805	$2,842

Because the district wanted an easily explainable and transparent formula, it deliberately kept weights simple and kept special education funding out of the formula. Another key characteristic of the Poudre approach is the additional funds available for smaller and more isolated schools. The district has both a major metro area and isolated mountain towns, and needed to be able to use its funding system to accommodate a range of schools.

The district retains responsibility for about half of the total budget, for areas such as special education, alternative programs, transportation, and other district services. The district worked with principals in designing the system, and followed their wishes that district services continue so that principals would not need to spend time bidding out for services typically delivered by the district. The district is slowly developing "entrepreneurial approaches" to some selected services such as professional development, food services, and online education.

District administrators report that the new funding system provides consistently equitable results between schools, and that the greater transparency permits schools to interact more productively with their site-based advisory councils. Principals at some schools are using SBB to be more creative, especially with funds for gifted and talented students, and overall principals are more aware of the size and nature of their student enrollments.

Colorado Charter Schools

Colorado also has a state-level version of student-centered funding, in the form of the charter school system. Colorado charter schools receive 100 percent of funding available to their authorizing district under the state school finance act. Up to five percent may be retained by districts to cover administrative costs associated with charter schools. To the extent that the School Finance Act already provides weights for at-risk students (albeit at a district level rather than a school level), charter schools may be said to receive a form of weighted student funding. Charter schools also have the authority to make decisions about how to expend most resources at the school level, a key aspect of the theory of improvement underlying student-centered funding. Charters negotiate with their districts about services that are to be provided by the district, and are entitled to receive an accounting of the cost of these services so that they can make decisions about whether the district or some other party should be the service provider.

There is little in-depth research to provide us details on how charter schools differ from traditional public schools in how they use their resources. However, from the research that is available we can say that charter schools do make different choices when it comes to resources than their traditional public school counterparts.

A recent study by the Center for Reinventing Public Education found that charter schools use their budgetary flexibility and authority to staff their schools in ways that are different from traditional public schools (Gross and Martens Pochop 2008). For example, charters tend to employ more classroom teachers to offer smaller class sizes in core subject areas, particularly in the secondary grades, and to employ more part-time teachers to provide tailored programs for serving their students. Conversely, charters tend to keep fewer non-instructional professionals on staff, such as librarians, counselors and nurses. The study found that charters are also more likely to provide individualized support strategies for at-risk students, such as tutoring and extended instructional time (including a longer school day or year and after-school programs).

Charters tend to pay for smaller class sizes by hiring younger, less experienced teachers with lower educational attainment than their peers in traditional public schools. A study by the National Center for Education Statistics (NCES) using a national database, found that the average teacher salary in charter schools is about 18 percent lower than those of traditional public school teachers even though they work, on average, more hours per week (Coppersmith, 2009). A second study by the NCES found that charter school principals were paid on average about 10 percent less than those in traditional public schools (Battle, 2009). Regardless of the level of pay, charters are more likely to employ an alternative teacher pay plan than traditional other public schools (Roza, Davis and Guin 2007).

In short, charters target their resources for core classroom teachers by hiring more, but lower cost teachers, employing fewer non-classroom support staff, and hiring more part-time teachers to provide flexibility in customizing their instructional program while minimizing staff costs.

The CRPE study found that charters also organize their instructional programs differently than traditional public schools. Charters are more likely to offer a more focused program with a specific instructional design that concentrates on the core academic subjects. Charters serving high minority student populations are more likely to offer a college preparatory curriculum than traditional public schools (Gross et al. 2008).

Charters tend to group their students differently as well, employing more multi-age classrooms and looping (where a teacher stays with the same classroom of students for two or more years such as grades 1-3, then loops back to start again with another group of first-graders) in the elementary grades and instructional houses at the secondary level that serve smaller numbers of students to provide a more individualized school experience (Gross et al. 2008).

The CRPE study found that charters also tend to be more innovative in their use of time (Gross et al. 2008). In addition to providing more opportunities for extended learning time, charters more often make use of block scheduling to provide longer blocks of time for in-depth instruction in core subject areas such as math, language arts, science, and social studies.

Finally, as independently-run schools, charters must carry out many administrative functions that are typically handled for district schools by their district's central office. These include implementing federal and state policy changes, running human resources and budget offices and operating facilities. Charters must perform these functions themselves or contract with another entity, such as the chartering district or a regional service organization, to do it for them. Like small school districts, charter schools suffer from diseconomies of scale, meaning that these administrative functions will often account for a larger share of their budget than in larger districts. As a result, charters tend to spend more of their overall budget on administration and facilities at the expense of instruction (Roza et al. 2007).

Research on Student-Centered Funding Systems

While much of the writing on student-centered funding to date has been theoretical from advocates and opponents of the concept, a small number of studies have attempted to tease out answers about the actual implementation, operation and effects of SCF. These studies have typically focused on SCF systems in larger urban school districts, addressing the development and implementation of their plans. Few studies have attempted to tease out the impact of SCF on student outcomes, but a handful of studies provide some indication of their potential for improving outcomes such as improved financial transparency, enhanced engagement and trust on the part of school staffs and student achievement.

The following section presents an overview of some of the most pertinent issues raised in these studies and the lessons learned from their findings. In particular, we focus on the issues of implementation, support and capacity building, devolving authority, effects on schools as organizations, and effects on student outcomes.

IMPLEMENTATION

Studies examining the implementation of weighted student formula funding systems have helped to shed some light on the nuts and bolts of developing such a system. This includes determining how much of a district's operating budget should be decentralized and what the factors and weights of the formula should be. Implementation studies have also looked at the design of the planning process and how quickly the resulting plan should be adopted – whether or not it should be phased-in and over how many years.

Planning Process. In most cases, districts implementing weighted student formulas have established broadly representative planning teams made up of central office and school administrators, teachers, classified staff, and teachers' union representatives. These teams are tasked with developing the guiding principles, scope, details, and timetable of the plan (DeRoche, Cooper and Ouchi 2004; Shambaugh, Chambers and DeLancey 2008). San Francisco found that providing for the early involvement of principals in its planning process helped to generate and maintain support for the plan, even as some schools found that they would lose funding under the plan (Shambaugh et al. 2008).

Implementation Timetable. Some districts struggled with the issue of how quickly – or slowly – to implement their plans. A study of the Cordell Place school district[6] in Washington State revealed a push-pull between implementing the system quickly to maintain momentum and to begin realizing the benefits of the system, such as increased equity, flexibility and transparency, versus phasing it in over a longer time period to avoid overwhelming district and school staff. The district ultimately decided to move forward more quickly, leading to issues with staff buy-in and mistrust between schools and the central administration (Fermanich, Odden and Archibald, 2000). To further complicate matters, the plan was adopted during a period when the district was forced to cut budgets.

Moving too slowly poses its own challenges. Evaluators of Hawai'i's weighted student formula plan found that the state was moving too slowly in implementing its system, thereby risking losing the support of schools and postponing potential benefits in equity and transparency (Baker and Thomas 2006a).

[6] Cordell Place is a pseudonym.

Decentralizing the Budget and Designing the Formula. The decisions made concerning what proportion of a district's budget is to be decentralized and which functions are devolved to the school level have a profound impact on how well a weighted student formula plan provides greater equity, transparency and school-level discretion (Hawley Miles and Roza 2006). If too few functions and too little money are decentralized, schools will likely lack the discretion and flexibility necessary to implement real reform. If too much is devolved, the system becomes too unwieldy and administrative burdens may overwhelm school staffs.

Studies of districts implementing weighted student formulas have found that the degree to which a district's budget is decentralized generally increases over time. Edmonton, the district with perhaps the most experience with student weighted formula in North America, began by allocating about 70 percent of its operating budget to schools. This percentage gradually rose to more than 80 percent and has since declined somewhat (Archer 2005; DeRoche et al. 2004). Other districts, such as Seattle and Houston, allocated just over half of their operating budgets through a weighted student formula. Ouchi (2006), based on his studies of districts with decentralized budgets, recommends decentralizing as close to 100 percent of a district's operating budget as possible. Another important factor in the design that significantly impacts both intradistrict equity and funding transparency is whether districts charge schools actual or average salaries for staff. This difference in salary levels from school to school is one of the largest factors in school-level inequality (Hawley Miles and Roza, 2006).

The key issues confronting the development of a weighted student formula include: 1) the amount of the base per pupil allowance; 2) which school and student characteristics should receive additional funding weights and the size of those weights (for programs for students such as at-risk, special education and ELL, for example); 3) what other school or student factors should be addressed in the formula (for example, small schools); and finally 4) does the formula generate enough revenue for schools to provide necessary services and programs?

While districts have taken different approaches to address these issues, the formula weights and amounts are frequently based on the amount of available district revenues for the programs funded through the formula (such as state categorical revenues for special education, ELL or gifted and talented programs), past spending patterns, and the amount of funding decentralized for inclusion in the formula (Fermanich et al. 2000). The evaluation of Hawai'i's new weighted student funding formula found that the plan's weights for low-income, ELL and special education students were far too low to cover the actual costs of providing services for these students (Baker and Thomas, 2006a). A number of the districts studied adopted inclusive advisory committees to review their funding formulas on a regular basis to address any potential funding problems (Baker and Thomas 2006a; Shambaugh, et al. 2008).

SUPPORT AND CAPACITY BUILDING

One of the overarching concerns of districts implementing student-weighted formulas is the capacity of school staffs to (1) manage the additional administrative burden that comes with real control over budgets and (2) to make informed and effective decisions in using resources to improve their instructional programs. There is also the corresponding concern of shifting the focus of central office administration from compliance to providing support to schools. Both Cordell Place and San Francisco invested significantly in additional professional development for school administrators in school planning and budgeting strategies. Cordell Place also upgraded its information systems to provide more, and more user-friendly, information to schools and developed a detailed user manual on the new budgeting system for principals.

These two districts, along with Edmonton, also worked intentionally on changing the culture of the central office to one that works in support of school success (Fermanich et al. 2000; Ouchi 2006; Shambaugh et al. 2008). For example, when filling positions in the budget office, Cordell Place sought out individuals with customer service experience that would help in working more effectively with schools.

DEVOLVING AUTHORITY

Allocating school resources according to a weighted student formula does not necessarily result in more discretion and authority at the school level. A decentralized budget must be accompanied by decentralized authority over key instructional resources such as staffing, curriculum and scheduling if changes in school programs and student performance are to be realized. As discussed above, the scope and form of the plan significantly impacts the amount of discretion that is pushed down to the school level. However, current educational systems may place a number of other institutional barriers in the path of effective decentralization. Washington State, for example, has a statewide teacher salary schedule that allows for little flexibility in varying teacher salaries to meet needs of schools (such as offering differentiated salaries to attract high-quality teachers to high-need schools). A similar situation exists in Hawaii, which has a single state-wide school district (Fermanich et al. 2000; Baker and Thomas 2006a). Other institutional barriers to decentralizing authority include collective bargaining agreements and state and federal regulations (Shambaugh et al. 2008).

ORGANIZATIONAL OUTCOMES

Although research is thin in terms of linking student-centered funding directly to improved student outcomes, a somewhat greater body of research exists that suggests properly implemented plans may create conditions in schools that may lead to better student outcomes.

For example, in Cordell Place researchers found that the new site-based budgeting system, which ultimately devolved more than 53 percent of operating revenues directly to schools, promoted greater trust, accountability, empowerment, and transparency. Under this system principals assumed greater responsibility for using data to guide program improvements and for how the school spent its money. As a result, most schools adopted research-based reform strategies such as whole school instructional designs (Fermanich et al. 2000).

A review of research conducted by San Francisco staff involved in the implementation of that district's plan concluded that staff, both principals and teachers, experienced a greater sense of empowerment and trust when they were given greater participation into budgetary decisions. Indications are that decentralization has also led to more cooperative relationships between schools and the district's central office (Shambaugh et al. 2008).

Ouchi's (2006) study of Edmonton, Seattle and Houston found that principals and teachers felt more empowered and took advantage of their opportunity to do things differently, leading to a greater variety of schools and programs for meeting the specific needs of students.

Research on whether student-centered funding actually leads to greater equity is mixed, due in large part to the practice in most districts where weighted student funding has been implemented, of using average rather than actual teacher salaries to allocate resources to schools. As studies of the equity of intradistrict resource allocation have shown, differences in teacher salaries are one of the largest contributors to funding disparities among schools (Cary and Roza 2008).

STUDENT OUTCOMES

As noted above, few of the studies reviewed here attempted to directly measure the impact of student-centered funding on academic performance. This is due, at least in part, to the fact that many researchers in this field view student-centered funding (and site-based management) as an intermediate factor. In other words, increasing authority and discretion in schools leads to higher morale, a shared sense of purpose and responsibility and a shared school culture, which should in turn lead to better student outcomes (Murphy and Schiller 1992). To this we would add that schools must possess the capacity to use data to make informed decisions about the needs of their students and the most effective strategies for meeting those needs (Petko 2005).

In a study of six public school systems, three urban public school districts with decentralized and three with centralized budgeting, Ouchi, et al. (Ouchi, 2006; Ouchi, et al., 2003) found that the decentralized public school districts (Edmonton, Seattle and Houston) outperformed the centralized districts on standardized tests and had slightly narrower achievement gaps between white and students of color. He argued that these results were due to greater efficiencies achieved in the decentralized public school systems, where principals were empowered to make more effective use of resources, leading to higher student achievement. However, the results of this study should be viewed with care given the small sample of districts and schools (further limited because only two pairs of schools used the same assessments allowing for comparisons) and the study's inability to isolate the potential effects of student-weighted funding from those of other reforms occurring at the same time in the districts.

The Cordell Place case study also suggests that changes resulting from implementation of its student-weighted formula led to steady improvements in student achievement, especially among high-poverty schools. However, no student achievement data are presented in the study.

The lessons learned from studies of both student-centered funding and school-based management suggest that to achieve improved performance outcomes, the explicit goal of these efforts must be to improve student achievement. Further, school staffs must be given the authority and control of critical factors of their instructional programs such as budget, curriculum and instructional strategies, and the hiring and firing of instructional staff. Finally, capacity building within schools in effective decision-making, instructional planning and evaluation, and budgeting must also be provided.

PART III: CHALLENGES AND OPPORTUNITIES FOR COLORADO

As can be seen from the districts that have implemented student-centered funding, implementation is not easy nor is it a guarantee of increased student achievement. Student-centered funding represents a dramatic change from our current system, and if its theoretical benefits are to be realized, requires fiscal management and resource allocation skills at the school level that are not currently the norm. In addition, our system of laws and regulations on school finance was not set up to support a student-centered funding system. This section will address some of the philosophical, legal, and practical issues that Colorado's policy makers may want to consider as they think about student-centered funding.

Values: Accountability, Flexibility, and Innovation

Government entities have a responsibility to citizens to be accountable for the expenditures of public funds. To do this, governments must be sound fiscal managers, must have a system that accounts in a predictable way for revenues and expenditures, and also must be able to report these revenues and expenditures in ways that are accessible to the public and monitor that funds are being collected and expended for the purposes set out in law.

Any public policy reflects trade-offs among public values. The financial management and reporting requirements applicable to school districts reflect the value of accountability in the expenditure of public funds. These requirements intentionally favor control of funds over real-time flexibility about how best to use funds. Policy makers considering changes to these requirements need to think about the proper balance between control and flexibility – if new funding mechanisms are put in place, how can the state maintain accountability to taxpayers for public expenditures while encouraging innovation in the use of those resources?

Another consideration that policy makers should be aware of is the balance between system efficiency and local flexibility. A system that is able to standardize many of its practices is often more efficient than a system in which practices are not standardized. However, a system that is highly efficient at getting certain things done is not always effective in fulfilling the ultimate purposes of the system.

Currently, our laws and regulations are intended to ensure public accountability for the collection and expenditure of funds for public education. These requirements are clearly more concerned with compliance and fiscal accountability than with encouraging innovation in resource decision-making at the school building level. In addition, our system of public education is designed to be highly efficient at processing students through the system, but we do not consider it highly effective at achieving its purposes.

Federal funding laws provide excellent examples of the triumph of accountability over flexibility, reflected in the prevalence of centralized decision-making. The regulations around the expenditure of federal funds for low-income students (Title I) and students with special education needs (IDEA) are notoriously byzantine and restrictive. This design was intentional, intended to ensure that the funds were ultimately used for the benefit of those students covered by the laws. In fact, many of these regulations can be traced back to early anecdotes of funds not being spent for their intended purpose. However, as discussed in several papers commissioned by the School Finance Redesign Project, the operation of these programs often interferes with other state and local efforts to benefit students (e.g., Roza et al. 2008). Appendix E summarizes selected requirements of Title I.

Colorado's School Finance Act, as discussed previously, may be more flexible than many state systems. For example, Colorado only has eight categorical programs, which require districts to expend the categorical funds for a prescribed purpose. On the other end of the spectrum, California has more than 100 categorical funds, severely limiting the ability of its districts to be flexible in how they spend the funds.

However, Colorado state law is full of requirements for district financial management, accounting, and reporting. For example, the state requires districts to account for receipt and expenditure of funds according to a standardized chart of accounts established at the state level. This is a mechanism that attempts to ensure that districts can be held accountable and compared to one another through standardization of reporting.

Colorado's chart of accounts requires districts to report using a chain of accounts that includes designated funds, locations, programs (instructional and support), objects (purposes, such as salaries), sources of revenue, and so on. The handbook for Colorado's chart of accounts is just under 200 pages long. While the chart of accounts has certain mandatory categories, it is expected to be customized for local reporting needs. A district that uses additional or different categories for local fiscal management and reporting will need to "translate" the local accounting system back into the Chart of Accounts for reporting to the state.

Financial accounting and reporting is also guided by standards of practice in the field. The Govermental Accounting Standards Board (GASB) is a private sector organization that provides financial accounting and reporting standards for state and local governments. The federal Department of Education also issues guidelines on financial accounting for school districts and schools. Districts that fail to follow standards of practice or statutory requirements in financial matters are subject to losing accreditation from the state. The major state statutory provisions mandating district financial management, accounting, and reporting are listed in Appendix D.

The actions of Denver Public Schools and the Poudre School District indicate that federal and state requirements are not absolute obstacles to district-based student-centered funding systems. However, that does not mean that these requirements are friendly to SCF. Integration between SCF and fiscal accounting and reporting requirements may depend on the design of the SCF system. Poudre officials report no difficulty in complying with these requirements while fielding an SCF system, while DPS may be experiencing greater difficulties.

Politics – Upsetting the Apple Cart

One of the most problematic issues for districts in implementing student-centered funding has been political backlash. SCF systems are generally intended to cause more resources to flow directly to schools serving students with greater needs. Currently, due to teacher preference, greater resources in the form of teacher salaries tend to flow to schools that do not serve these students (Roza and Hill 2004). In reversing that flow, SCF systems are often challenged by school administrators and parents in wealthier schools that face losing funds to poorer schools. In systems that are already perceived to be underfunded, these battles can be fierce. District administrators are well aware of the political dangers of angering their wealthier families.

Districts seeking to defuse this issue have tried several things. First, implementing the change slowly gives schools and parents the chance to adjust without being faced with a large immediate funding loss. Several districts have also committed to "holding harmless" for a period of time those schools that will eventually see less money. However, this approach requires the expenditure of additional money during the transition and hold harmless period, something most districts are not in a position to do.

School and District Capacity – the Invisible Issue

The logic model underlying most arguments for SCF is based on the assumption that once school personnel have more control over spending funds, the funds will be spent more wisely in service of students. In order to do this well, school leaders need to be financially savvy procurers, nimble entrepreneurs, and instructional experts well aware of the range of approaches needed to serve diverse groups of students.

For the most part, our current educational system does not prepare school leaders to take complete control over most of the school budget. We are evolving from an educational system in which principals were expected to "manage" the building by ensuring that students were appropriately disciplined, school logistics ran smoothly, and parents were deftly handled. Today's principal is also expected to be an instructional leader, and, if his or her district adopts student-centered funding, a savvy entrepreneur and businessperson. Principals are already buckling under the nearly impossible demands of the job, and not all of them are eager to add financial management to the list.

In addition, as noted in other sections of this report, the typical way that districts have managed their schools was via a more centralized, input-driven approach. Moving to a more decentralized system that gives schools more autonomy to decide how to utilize resources and in some cases the opportunity to opt-out of or use different services from the standard district services requires school districts to create a new business and service-delivery model.

Without informed school-based decision-making and adequate district systems to support greater school-level autonomy, the promise of SCF will not be realized. Thoughtful implementation of SCF would include an assessment of the structures and systems that need to be revised, leadership knowledge and skill buildings at the district and school levels, and the training that is likely to be required to move to SCF. It may also require more distributed leadership, with teacher leaders assuming some leadership roles to ease the burden on principals. Again, most districts today are struggling financially, and do not perceive themselves to have discretionary resources to implement such changes. This raises the following question: what incentives might encourage districts and schools to try a SCF approach?

PART IV: RECOMMENDATIONS

Recommendations
• **Adopt a statewide vision for school funding** • **Provide state-level incentives for student-centered funding systems** • **Provide state support for the capacity-building for school and district leaders need to effectively use student-centered funding systems for improving student achievement** • **Implement a data system that provides rich information about funding programs and strategies and their relative effectiveness** • **Ensure that education funding is accountable, equitable, and adequate**

As the previous discussion shows, moving to a student-centered funding system is difficult and not a guarantee of improvement in student outcomes. However, if our public education system is ever to successfully educate all students, it is likely that the system will need to adopt and effectively implement at least some features of student-centered funding. With these assumptions in mind, we make the following recommendations for the state and for districts considering SCF.

1) ADOPT A STATEWIDE VISION FOR SCHOOL FUNDING

Colorado's current school finance system was designed to address the funding equity concerns of the 1970s and 1980s. While the system has done relatively well in accomplishing this goal, reforms are necessary for the system to effectively support our educational goals for the 21st century. To guide the design of the new funding system, we suggest that Colorado adopt an overall vision for school funding, which could look something like this:

Performance Goals

- All children entering school are ready to learn
- Keep all students in school and engaged in learning through graduation
- All students annually make at least one year's growth in all subjects tested by CSAP, while those students who are not proficient in one or more subjects will make annual growth necessary to reach proficiency within three years or by graduation
- All students graduate ready for postsecondary education and the workforce as defined by the Colorado State Board of Education

Operational Goals

- System provides resources adequately and equitably among school districts, schools and students
- Provides transparency and accountability to education consumers, taxpayers, and policy makers
- Provides incentives to use resources effectively and efficiently in supporting student achievement
- Provides flexibility for highest and best uses of resources to support student achievement
- Supports continuous improvement efforts in identifying student needs and adopting strategies that work.

Capacity-Building Goals

- District and school leaders all have knowledge and skills to use resources strategically for accomplishing school, district and state goals

Further, a 21st century school finance system for the state should include:

Incentives to:

- Cultivate community collaborations that support school readiness and success for all children
- Increase attendance and graduation rates
- Increase the academic achievement of at-risk students and reduce the achievement gap between affluent majority students and their peers who are poor or are children of color
- Support all schools and choice programs located within a district's boundaries

Flexibility for:

- Supporting a system based on mastery learning rather than seat-time

- Focusing on student outcomes rather than regulations and compliance

Investments in:

- Developing and supporting high-quality teachers and instructional leaders
- Proven, effective instructional strategies
- Developing a high-quality school-level financial data system

1) Provide state-level incentives for student-centered funding

If Colorado decides that SCF is a worthwhile approach, the state could mandate that all districts use SCF. However, the logic model underlying SCF is much more applicable to larger districts that have multiple schools. Many of Colorado's districts are small and isolated, with just one or two schools at the various grade levels. In some of these districts, the superintendent is also serving as a school principal. These smaller districts may benefit less from a transition to SCF than much larger districts. Policy makers should recognize that not all districts will need to implement all elements of SCF in order to make building-based decisions.

As a result, the better approach is to identify incentives for SCF and remove regulatory barriers, so that districts that would benefit from SCF are given the resources necessary to plan for and implement it. For example, the state might provide planning and implementation funds to districts to help them design an SCF system that makes sense in their district; to train the school leaders in the district in the new skills required by SCF; and to provide "hold harmless" funding over the transition to SCF.

At the same time, the state should take steps to rework the state school finance system to better accommodate SCF, such as exploring using student weights to drive more of the funding, extending financial reporting to the school level, and better integrating the flow of state and federal funds.

The state should also review its regulatory requirements for financial management, accounting, and reporting so that it can identify and remove unnecessary obstacles to district implementation of SCF. This review would ideally allow the state to strike the appropriate balance between the needs of the state for accountability and efficiency and the needs of districts and schools for flexibility and innovation. The Financial Procedures and Policies Advisory Council, a group of district-level budget and financial administrators currently providing support and input to the Colorado Department of Education on financial issues, would provide an excellent study group for this topic.

2) Provide support for capacity-building for school and district leaders

In order to successfully develop and implement SCF systems, district and school leadership will require skills that most do not now possess. If the state believes that SCF is worth pursuing, it must invest in building the skills that are needed to design and implement successful systems.

For example, currently teacher and principal preparation programs do not focus heavily on strategic decision-making and resource allocation. The state could help program providers develop and expand preservice and inservice training for principals and teacher-leaders in strategic resource decision-making and in using tools for evaluating the effectiveness of alternative programs and strategies.

The state should also create a "best practices" web-based repository for districts and schools that compiles the best available research on effective and efficient resource use. This can help districts and schools determine which design features might work best for their circumstances, and also help them learn from the lessons of others.

3) Implement a data system that allows for the effective allocation of resources

Student-centered funding will only contribute to better outcomes for students if data are available for tracking funding and costs to the school - and even individual student – level. We will need a system that collects and reports fiscal data at the school level and combines this data with other data sources, new or existing, to provide rich information about programs and strategies and their effectiveness. This data must be available to school staff and researchers so that we can learn more about the costs of different instructional alternatives and their effectiveness, arming school leaders with information about the best use of funds to meet student needs

4) Ensure that education funding is accountable, equitable, and adequate

In considering the redesign of public education funding to encourage transparency and flexibility, policy makers should be careful not to lose sight of other important values such as fiscal accountability, equity, and adequacy.

As discussed earlier in this report, our current system is set up to track funds in great detail according to pre-determined activities, programs, objects, and the like. This system may not provide us with much useful information about the effective use of dollars, but it certainly allows us to track the dollars in accordance with these categories. An alternative approach will need to retain fiscal accountability while opening the system up to a more fluid and responsive movement of funds.

SCF is an alternative conception of how to achieve equity – rather than all students receiving equal resources, each student will receive the amount of resources needed to allow that student, with his or her characteristics, to succeed. In this way, SCF is intended to achieve equity among students with respect to their outcomes. The concept of equity as among districts, in that a student should not be penalized in the amount of resources available to them simply due to their geographic location, remains just as valid in an SCF system as in a traditional system.

Regardless of how effectively schools use their resources, if the money is not available to fund the programs students need to succeed we will continue to struggle to reach our educational goals. Research on the impact of resources on student achievement points to the need for both adequate levels of resources *and* their effective use.

Today, it is arguable that we simply don't know enough to know whether our education resources are adequate to the task we have set education. The National Working Group on Student Learning (2008) suggests that we begin with a "first approximation" of what is needed, set up a system that delivers information about the connection between spending and results, and then adjust it as we know more.

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APPENDIX A - COLORADO SCHOOL FINANCE PRIOR TO 1994[7]

Colorado's state constitution, adopted in 1876, directs the state to "… provide for the establishment and maintenance of a thorough and uniform system of free public schools throughout the state." Like most states, Colorado relied heavily on local property taxes to fund its public schools from the early days of statehood through the 1970's. The state's share of school funding in the beginning consisted of a small contribution from the Public School Income Fund, which was made up of revenues generated from state-held school lands. However, state participation gradually expanded over time as the costs of education rose and local property taxpayers increasingly protested rising school property tax levels

The state's school finance system slowly evolved over time, including the establishment of minimum teacher salaries and class sizes as a basis of funding in the 1920's; the use of state income and specific ownership taxes to support education in the 1930's; the switch to "classroom units" to determine district funding in the 1940's; and in the 1950's, the establishment of categorical funding streams for students with disabilities (1953), transportation (1956) and small attendance centers (1957). Throughout this period the state played a fairly minor role in financing K-12 education, but districts were unlimited in their ability to raise revenue locally as long as they obtained voter approval.

Further changes to the system were made in the 1960's in response to continuing concerns over rising school property taxes and growing funding inequities among districts based on property wealth. In 1962, the General Assembly increased state funding for equalizing property tax burdens among counties and districts (although the state's share of total school funding was still small), and state property tax relief was increased in 1965 to offset the local impact of rising school costs.

The passage of the Public School Foundation Act of 1969 represented a major departure from the state's previous school finance system. Most notably, the basis for funding districts was changed from classroom units to pupils in average daily attendance. Under the 1969 Act, districts were required to raise a minimum, or "foundation," amount of $440 per student in average daily attendance. Similar to today's formula, if the local share raised by a district mill levy and specific ownership taxes was insufficient, then state aid was provided to make up the difference. Another major departure from the past was to shift responsibility for levying school

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[7] The source for much of the history presented here is *Report to the Colorado General Assembly: Recommendation for 1979 Committee on School Finance*. Legislative Council Research Publication #235, December 1978. The source of specific details of the Public School Finance Act of 1973 was *Understanding Colorado School Finance 1974*, Edwin Steinbrecher, CDE, July 1973.

property taxes from counties to school districts. The 1969 Act was also the first under which the funded pupil count was based on a four-week period in October rather than on the previous year's count.

The next major revision to Colorado's school finance occurred under the Public School Finance Act of 1973. In response to a wave of school finance equity lawsuits filed in states around the nation, the focus of the 1973 Act was to significantly increase state funding to provide greater equalization of per pupil funding and local property tax rates across school districts. These equity cases alleged that state school finance systems based on local property taxes violated the US constitution's equal protection clause and state constitutions' education clauses calling for "uniform and thorough" school systems, since districts with low property wealth were inherently at a disadvantage in raising revenues. Their purpose, which has largely been achieved in most states, was to sever the relationship between local property values and school funding levels.

The 1973 Act aimed to increase equity in Colorado by freezing per pupil revenues generated under the 1969 Act for wealthy districts while allowing per pupil revenues in low spending districts to "level up" to that of their higher spending peers. The tax effort among districts with varying property wealth was equalized through a "power equalization" formula that established a guaranteed minimum amount of revenue per mill of property tax levied. In district's local mill levy failed to raise the minimum amount of revenue base, the state again provided the balance through state aid. A State School District Budget Review Board was also established. Consisting of the Lt. Governor,

State Treasurer and Chair of the State Board of Education, the Board was authorized to grant individual districts revenue increases in excess of their revenue limit under the state formula. Approved increases were then permanently included in a district's revenue base for subsequent years.

With its focus on improved equalization, the state share of general fund district revenues increased dramatically under the 1973 Act. State payments more than doubled from $126 million in 1970 to $294 million in 1974. The 1973 Act also provided relief for districts with declining enrollment by giving them the option of using the greater of the prior year's pupil count or a three-year average pupil count for funding purposes. A subsequent amendment to the Act (1977) established the predecessor to today's at-risk formula.

The 1973 Public School Finance Act provided the basic framework for school finance in Colorado for the next 15 years. Not until the passage of the School Finance Act of 1988 was the system significantly overhauled. The impetus for the 1988 Act was provided by continued concerns that school funding levels in Colorado's districts were still overly dependent on local property wealth. Two equity law suits filed against the state in the late 1970s provided additional motivation for the legislature to act.[8]

The formula established under the 1988 Act was designed to further improve funding equity among districts (Fukuhara-Bryan, 1989; Legislative Council, February 1990; Legislative Council, December 1990). To accomplish this, the Act established two provisions designed to equalize funding levels across districts based on various district characteristics and historical spending patterns. The first provision assigned districts to one of eight "setting" categories, or groups of districts with similar demographic, geographic and economic traits affecting school costs. Per pupil funding adjustments differed for each of the eight setting categories so that, for example, districts in a higher cost setting category would all receive the same funding adjustments to increase revenues.

The second revenue equalizing mechanism borrowed from the 1973 Act by providing for differing revenue growth rates during a four-year phase-in period that permitted districts with spending levels below the amount generated under the new formula to phase-up by roughly one-quarter of the difference between their base-year funding under the old formula and the higher amount under the 1988 Act each year. Districts with base-year funding above that of the new formula were held harmless at their higher funding level, but granted smaller annual increases than other districts. In districts where there was little difference between funding levels under the old and new formulas, revenues were generated under the new formula with no adjustments. Only a small percentage of districts were "on formula" during the phase-in period.

The 1988 Act also re-established a uniform state-wide school levy mill rate, to be phased-in over time, in yet another attempt to equalize tax rates among districts. Other provisions included the establishment of the capital expenditure and insurance reserve fund (just repealed for FY 2010), a limited voter-approved override levy of up to five percent of a district's total program revenues, and a state-funded preschool program for up to 2,000 low-income children. The 1988 Act also established the first state accountability measures.

The 1988 Act was criticized by the education community for providing inadequate funding levels and reducing local control by creating mandatory reserves and limiting the amount of voter-approved override levies. Complaints also targeted what was considered inadequate adjustments for small attendance centers and declining enrollment districts, and too little funding for preschool programs.

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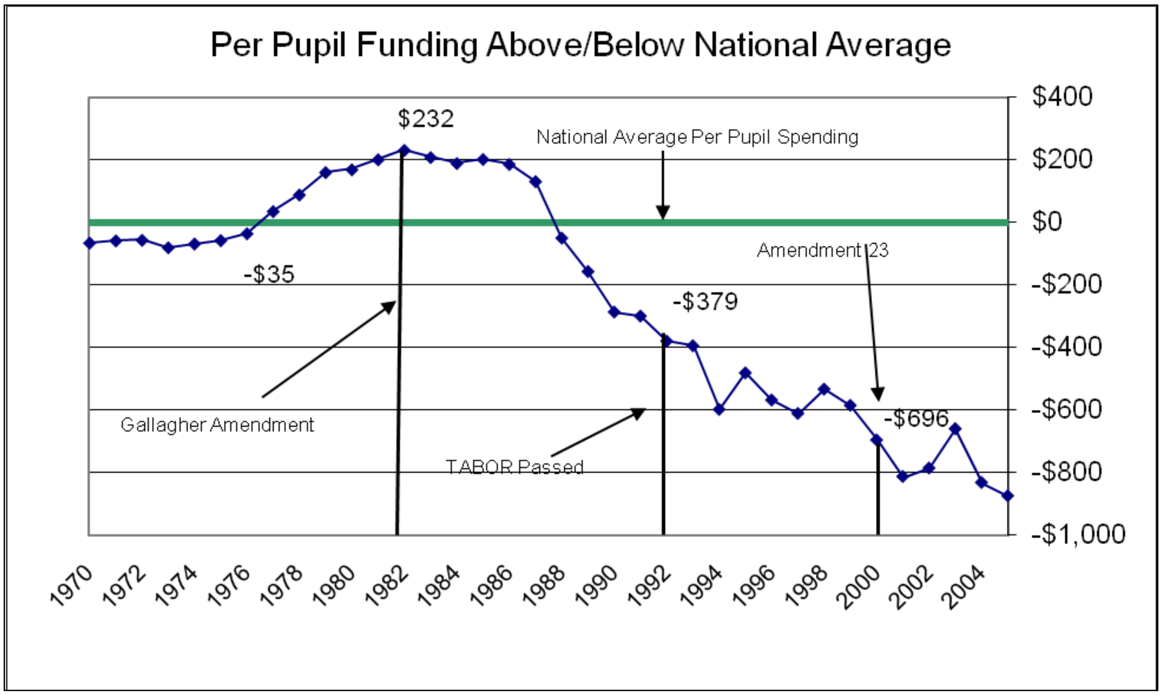
[8] *Lujan v. Colorado State Board of Education* filed on behalf of 16 school districts in 1977 was upheld in trial court by overturned in the Colorado Supreme Court. A later suit filed on behalf of 17 students was withdrawn before going to trial (Access Quality Education, accessed May 12, 2009 at http://www.schoolfunding.info/states/co/lit_co.php3)

With the passage of TABOR in 1992 and its restrictions on state and local tax increases, the Legislative Council, which had been directed by the legislature to review the setting categories established in the School Finance Act 1988, recommended wholesale changes to school finance to accommodate the new fiscal realities under TABOR. The result of their recommendations was the School Finance Act of 1994, the school finance system currently in place (Legislative Council, 1993).

APPENDIX B - KEY COLORADO CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING EDUCATION FUNDING IN COLORADO

Amendments to the Colorado Constitution have greatly affected the state's collection and distribution of revenue for K-12 education spending. In particular, the Gallagher Amendment, TABOR, and Amendment 23 provide broad dictates about what is mandatory with respect to revenue collection and expenditures.

The following chart shows the effect on per pupil funding over time as each of these provisions were enacted.



Source: The Bell Policy Center

The Gallagher Amendment was passed in 1982 in response to taxpayer concern over rapidly rising home values. The Amendment caps the residential share of total property values at roughly 45 percent (Legislative Council, 2003) . While this holds property taxes down for homeowners, it also shifts more of the property tax burden to business property and suppresses total taxable value, and thus the total amount of property taxes available to fund schools. The Gallagher Amendment, in conjunction with TABOR, has forced the state to assume far greater responsibility for funding schools over time. As the following table shows, between 1993-94 and 2008-09, the state's share of Total Program funding increased from 53 percent to 64 percent.

Total Program Local and State Shares (000s)

FY 1993-94 to 2008-09

Year	Local Share	Pct. Local	State Share	Pct. State	Total
1993-94	$ 1,173,360	47%	$ 1,333,473	53%	$ 2,506,833
1994-95	$ 1,212,975	46%	$ 1,442,538	54%	$ 2,655,513
1995-96	$ 1,257,025	45%	$ 1,524,452	55%	$ 2,781,477
1996-97	$ 1,301,484	44%	$ 1,644,771	56%	$ 2,946,255
1997-98	$ 1,372,814	44%	$ 1,724,017	56%	$ 3,096,831
1998-99	$ 1,417,205	43%	$ 1,848,346	57%	$ 3,265,551
1999-00	$ 1,476,033	43%	$ 1,929,349	57%	$ 3,405,382
2000-01	$ 1,538,638	43%	$ 2,046,137	57%	$ 3,584,775
2001-02	$ 1,628,159	42%	$ 2,228,375	58%	$ 3,856,534
2002-03	$ 1,676,090	40%	$ 2,483,614	60%	$ 4,159,704
2003-04	$ 1,673,577	39%	$ 2,624,575	61%	$ 4,298,152
2004-05	$ 1,688,628	38%	$ 2,741,712	62%	$ 4,430,340
2005-06	$ 1,702,468	37%	$ 2,869,702	63%	$ 4,572,170
2006-07	$ 1,730,154	36%	$ 3,059,154	64%	$ 4,789,308
2007-08	$ 1,915,780	38%	$ 3,152,195	62%	$ 5,067,975
2008-09	$ 1,955,869	36%	$ 3,419,210	64%	$ 5,375,079

Source: Legislative Council

The Arveschoug-Bird statute, named for its legislative authors, was passed by the General Assembly in 1991 for the purpose of limiting state general fund spending. While the statute does not limit overall spending, it does cap the annual increase in general purpose spending for such program as P-12 and higher education, health care, human services, and corrections to six percent. Any state general fund revenues still available once the six percent spending limit is reached are redirected to other purposes, primarily transportation and capital construction. Arveschough-Bird has been effective in restricting general purpose spending, particularly during economic downturns when it has a ratchet effect in years when general fund spending actually falls. Its impact on P-12 education has been mitigated in comparison to other spending areas due to the protections of Amendment 23. Concerns over the provision's impact on the state's budget during the current economic crisis led to its repeal this legislative session.[9]

TABOR, considered to be the most restrictive state budget limitation in the country, was passed by voters in 1992. TABOR limits the annual growth of both state and local revenues to inflation plus population growth. Additionally, it requires a vote of the people to enact any new tax or increase in existing tax rates. Under TABOR, Colorado's state and local tax revenues have fallen to 46th in the nation, limiting the state's ability to fund essential state services[10]. During the recession of 2001-03, the ratchet effect TABOR had on declining state revenues led voters to approve a five year time-out from its provisions with the passage of Referendum C in 2005 (Bell Policy Institute, Colorado Fiscal Policy Institute and Colorado Children's Campaign, forthcoming).

At the same time TABOR restricts state revenues, its impact on school property taxes has forced the state to assume an increasing proportion of the costs of P-12 education. Under TABOR, until the mill levy freeze was instituted last year, as property values rose districts were required to reduce their mill levies to avoid raising local property taxes. Over time, as property values increased school mill levy rates decreased, falling the most in districts with the fastest growth in property values. As a result, prior to TABOR, 120 out of the 176 districts had general fund mill levies equal to the uniform levy at the time of 40.08 mills. By the 2007-08 school year, TABOR had driven the maximum mill levy down to 27.0 mills, with most districts levying far below this rate. The long-term impact of TABOR has been to dramatically increase variation in mill levies around the state while at the same time driving down the local share of education funding[11].

Amendment 23 was passed by the voters in 2000 in response to long term declines in P-12 education funding, caused in large part by TABOR. Amendment 23 requires that per pupil and categorical funding increase by at least the rate of inflation plus one percent through FY 2010-11. After that, funding must continue to increase by at least the rate of inflation. The intent of the Amendment was to "catch up" spending for P-

[9] SB09-228 repeals the six percent growth cap but leaves a cap on total general fund appropriations equal to five percent of personal income in place.

[10] Colorado Fiscal Policy Institute analysis.

[11] Analysis based on Colorado Department of Education data.

12 education to at least 1988 levels (Knous and Udall, 2003). To get around TABOR, Amendment 23 established the State Education Fund and exempted it from TABOR's revenue growth limits. One-third of state income taxes are dedicated to the State Education Fund and used to supplement the general fund in order to meet the funding obligations contained in the Amendment.

APPENDIX C - INVENTORY OF REVENUE SOURCES FOR PUBLIC EDUCATION IN COLORADO

Revenue Source	Amount (Millions)	Statute/Session Law
Total Program		22-54-104
Per Pupil Funding	$5,060.9	
At-Risk Funding	$226.1	
Online Funding	$67.9	
Total Program	$5,354.9 Shares: State: $3,393.4 Local: $1,961.5	
Other State Revenues		
Hold-harmless Full-Day Kindergarten Program	$7.4	HB08-1388
Contingency Reserve Fund	$4.8	22-54-117
Other Property Tax Revenues		
Override Levies	$548.7	22-54-108.5
Hold-harmless Override	$21.3	22-54-108
Additional Transportation Levy	$10.2	22-40-102
Full-Day Kindergarten Mill Levy Override	$0.94	22-54-108.5

Categorical Programs		
Special Education	$127.4	22-20-114, HB08-1388
English Language Proficiency	$8.6	22-24-103, 104 and 106
Transportation	$45.4	22-51-101 to 111
Colorado Vocational Act	$21.7	23-8-101 to 105
Gifted and Talented	$8.4	22-20-104.5, HB08-1388
Expelled and At-Risk Student Services	$6.3	22-33-205
Small Attendance Centers	$0.94	22-54-122
Comprehensive Health Education	$0.71	22-25-104, 105, 109, and 110
Capital Construction		
Capital Bonds Levy	$727.4	22-42-102
Special Building and Technology Fund Levy	$6.8	22-45-103
Loan Program for Capital Improvements in Growth Districts Levy	Not available	22-2-125
BEST	$20.0	22-43.7-101 to 116
Charter School Capital Construction	$5.1	22-54-124, SB09-215
Full-Day Kindergarten Capital Construction Grants*	$0.0 ($34.6)	HB08-1388
State Grant Programs		

Teacher and Instructional Support		
Alternative Teacher Compensation Plan Grants*	$0.0 ($1.0)	22-69-101 to 106
Closing the Achievement Gap*	$1.7	22-7-611 and 613
Dropout Prevention Activity Grant Program	$0.16	22-27.5-101 to 106
Family Literacy Grants	$0.20	22-2-124
Military Dependent Supplemental Pupil Enrollment*	$0.0 ($1.8)	22-54-128
National Credential Fee Assistance	$0.13	22-60.5-112.5
NBPTS Teacher Stipends*	$0.0 ($1.2)	HB08-1386
Read-to-Achieve Grant Program	$6.7	22-7-901 to 909
School Counselor Corp Grants	$5.0	22-91-101 to 105
Science and Technology Center Grant Program*	$0.30 ($0.60)	22-81-201 to 206
STEM Afterschool Pilot Grants*	$0.0 ($0.30)	HB08-1388
Summer School Grants*	$0.0 ($1.0)	22-7-801 to 807
Supplemental On-Line Education Grants	$0.05	22-2-130
Supplemental On-Line Education Services	$0.48	22-5-119
Health and Nutrition		
State Match for School Lunch Program	$2.5	22-154-123
School Breakfast	$0.50	22-154-123.5
Child Nutrition School Lunch Protection Program	$0.85	SB08-123

Smart Start Nutrition Program	$1.4	22-82.7-101 to 107
Public School Health Services	$.021	SB97-101
Federal Grant Programs		
NCLB		
Title I Part A Formula	$127.1	
Title I Part A School Improvement	$2.1	
Title I Part A School District Improvement	$0.49	
Title I Part A Family Literacy	$0.33	
Title I Part A Recruitment and Retention	$0.44	
Title I Part A Focus on School Improvement	$1.4	
Title I Part B Even Start	$0.55	
Title I Part B Reading First	$5.7	
Title I Part C Migrant	$6.5	
Title I Part D Delinquent Institutions	$2.0	
Title II Part A Teacher Quality	$31.0	
Title II Part B Math/Science Partnerships	$1.7	
Title II Part D Technology	$1.2	
Title II Part D Power Results	$1.2	
Title III ELL	$8.8	
Title III ELL, Immigrant Set-Aside	$1.0	

Title IV Safe/Drug Free Schools	$2.4	
Title IV Part B 21st Century Learning Centers	$7.7	
Title V B Charter Schools	$5.1	
Title VI Part B Rural, Low Income Schools	$0.31	
Title X Homeless	$0.53	
IDEA		
Part B Special Education	$128.6	
Preschool Special Education	$3.6	
Other		
Adult Education State Grant	$0.63????	
Public Health Service Act Strategic Prevention Program	$0.11	
Nutrition Programs – pass through	$112.4	

*Reduced or eliminated to balance 2008-09 budget

APPENDIX D - MAJOR COLORADO STATUTORY PROVISIONS AFFECTING SCHOOL DISTRICT FINANCIAL MANAGEMENT, ACCOUNTING, AND REPORTING

Articles 44 and 45 of the Colorado Education Code contain mandates for districts to follow in considering and adopting budgets, accounting for revenues and expenditures, and engaging in financial reporting. Evidence of district compliance with these articles is a requirement of the state's accreditation process for districts (CRS 22-11-104).

Article 44 is titled Budget Policies and Procedures, and is known as the School District Budget Law of 1964 (CRS 22-44-101 et seq.). The article contains the following requirements:

- Boards of education must adopt an annual budget and appropriation resolution prior to the beginning of each fiscal year
- District budgeting and accounting must be based on the full accrual basis
- The budget must be in the standardized format adopted by the state board of education as of July 1, 2008; must be understandable to a layperson; must allow for comparisons of revenues and expenditures among districts; may not reflect deficit spending; and must include the following components:
    - Total expenditure
    - Amount budgeted for the current fiscal year
    - Amount estimated to be expended in the current fiscal year
    - Budgeting for required TABOR reserves
    - Summary of revenues by revenue source
    - Summary of expenditures by function, fund, and object
    - Itemized reconciliation between the fiscal year end balances based on the budgetary basis of accounting used by the district and the fiscal year end balances based on the modified accrual basis of accounting
    - Balance statement for each fund
    - Explanatory schedules or statements as needed
- As of 1998, the state is required to establish and implement a statewide financial, student management, and human resource reporting system, and districts are required to use this system to report financial information
    - The financial and human resource reporting system must
        - Be based on a chart of accounts that makes school-to-school and district-to-district comparisons more accurate and meaningful
        - Provide standard definitions for employment positions in order to facilitate the full and accurate disclosure of administrative costs
    - The financial reporting system must allow the collection of comparable data by program and school site
- Boards of education may provide for an operating reserve in the general fund not to exceed fifteen percent, which funds may not be appropriated but are to provide a beginning fund balance for the next fiscal year

- Boards of education must prepare a proposed budget that includes the district's educational objectives and strategies; must make the proposed budget available for public review and comment; must give public notice of the meeting at which the budget will be considered; must formally adopt the budget as proposed or revised; must make the budget available for inspection; and must submit the budget to the state department of education
- Boards of education may not transfer moneys from one fund to another except as specified, although moneys may be borrowed by resolution
- Upon declaration of a fiscal emergency, the board may implement reductions in salary or work year
- The state board of education may adopt a financial policies and procedures handbook, to be used by districts in the development of the budget, the keeping of records, and the presentation of financial information to the local board of education

For the state's current Financial Policies and Procedures Handbook, visit http://www.cde.state.co.us/cdefinance/sfFPP.htm.

Article 45 is titled Accounting and Reporting (CRS 22-45-101 et seq.). The article contains the following requirements:

- School districts must use the full accrual basis of accounting when budgeting and accounting for funds, and must keep financial records in accordance with generally accepted principles of accounting. Each district fund must have general records as well as appropriation, revenue, and expenditure records.
- The board of education must review the district's financial condition at least quarterly. The quarterly financial report must include:
    - Actual amounts received and spent for each separate fund, expressed as dollar amounts and as a percentage of the annual budget, compared with the same numbers for the preceding fiscal year
    - Expected year-end fund balances, expressed as dollar amounts and as a percentage of the annual budget, and a comparison of the expected amounts with the budgeted amounts
- Districts must maintain the following funds:
    - General fund: contains all revenues except those specified for other funds; the district may make any lawful expenditure from the general fund. The general fund includes the following accounts for funds earmarked by other statutes:
        - Instructional supplies and materials account (School Finance Act, repealed for the 09-10 school year)
        - Instructional capital outlay account (School Finance Act; repealed for the 09-10 school year)
        - Other instructional purposes account (School Finance Act; repealed for the 09-10 school year)
        - Fingerprint processing account (fees collected pursuant to statutory fingerprinting requirements)

  - Bond redemption fund: contains revenues from a tax levy for the purpose of satisfying bonded indebtedness and installment purchase obligations; separate tax levy revenues may be placed in subsidiary accounts
  - Capital reserve fund: contains revenues appropriated under the School Finance Act for this purpose, along with gifts, donations, and tuition receipts; expenditures from this fund limited to long-term capital outlay expenditures for the following purposes:
    - Acquisition of land, improvements, construction or structures or addition to existing structures, and acquisition of equipment and furnishings
    - Alterations and improvements to existing structures in excess of $2,500
    - Acquisition of school buses or other equipment, or software licensing agreements, in excess of $1,000
    - Acquisition of computer equipment in excess of $500
  - Special building and technology fund: contains revenues from a tax levy for the purpose of acquiring, maintaining, or constructing schools or for the purchase and installation of instructional and informational technology; expenditures limited to these purposes
  - Risk management reserves: contains funds allocated from the School Finance Act for this purpose
  - Transportation fund: contains revenues from a tax levied or fee imposed for excess transportation costs and revenues received from the state for transportation purposes
  - Full-day kindergarten fund: contains revenues from a tax levied for the purpose of paying excess full-day kindergarten costs, including kindergarten capital construction needs
- Proceeds from the sale of lands and/or buildings are to be deposited in either the bond redemption fund, the capital reserve fund, or both, or may be used to defray pension liabilities

The standardized Chart of Accounts required by Articles 44 and 45 may be found at http://www.cde.state.co.us/cdefinance/sfCOA.htm. In general, the Chart of Accounts requires districts to use preset codes to identify various types of funds, organizational units, activities, programs, objects, and job classifications. It was designed to comply with generally accepted accounting principles for government agencies.

The activities for which a district receives and uses funds are referred to as Special Reporting Elements. The Chart of Accounts anticipates that a district will engage in six main activities, as follows:

- Instruction, including regular education, special education, vocational education, co-curricular education and activities, adult education for K-12 students, and other education

- Support services providing administrative, technical, and logistical support to facilitate and enhance instruction, including student activities, instructional staff, general and school administration, business, operations and plant, student transportation, central services supporting support services (such as planning, research, evaluation, etc.)
- Non-instructional services, such as food services operations, enterprise (fee-based) operations, community services operations, and education for adults
- Facilities acquisition and construction services, such as site acquisition and improvement services
- Other uses, including debt service and fund transfers
- Reserves

As stated in the body of the report, the Chart of Accounts is nearly 200 pages long, and cannot be summarized here in its entirety.

APPENDIX E - SELECTED TITLE I REQUIREMENTS

There are multiple federal programs providing additional funding for education. For a complete listing of federal education programs, visit http://www.ed.gov/programs/find/title/index.html?src=ov. This appendix will summarize some requirements applicable to districts and schools receiving funds from Title I of the Elementary and Secondary Education Act.

Title I is intended to provide compensatory support for the education of children from low-income families. Any changes in district funding practices will need to allow the district to continue to meet its obligations under Title I (as well as other federal programs). Advocates of student-centered funding have cited Title I as a barrier to realizing the intended outcomes of SCF. In particular, Title I imposes three requirements on districts and schools that are intended to ensure that federal funds will have an impact on the targeted student population.

Maintenance of effort: To receive Title I funds, the school district is required to maintain fiscal effort with state and local funds

- State must find that district's funding (combined state and local) equals or exceeds 90 percent of either the aggregate expenditures or the expenditures per student in the preceding fiscal year
- If below 90%, funding is reduced by exact amount of discrepancy
- Can be waived due to natural disaster or "precipitous decline" in district resources
- MOE applies to Title I, Part A, and also to a number of other programs in ESEA

Comparability: Districts are required to provide services in Title I schools with state and local funds that are at least comparable to services provided in non-Title I schools in the district, or, if all schools are Title I schools, all schools must be treated equally

- Comparability can be demonstrated a priori through assurances of:
    - District-wide salary schedule
    - Policy to ensure equivalence in staffing among schools
    - Policy to ensure equivalence in distribution of curriculum and instructional materials
    - Other policies, including student-instructional staff ratios, student-instructional staff salary ratios, expenditures per pupil, or a resource allocation plan based on student characteristics such as poverty, limited English proficiency, disability, etc.

- Not included in comparability determination: staff salary differentials based on years of experience; state and local funding for programs such as ELL and special education and others serving at-risk students. Also, schools with under 100 students or districts with only one school at each grade span are exempted.
- State can mandate method of determining comparability

Supplement, not supplant: Districts are required to use Title I Part A funds to supplement, not supplant, services provided to all students using regular non-federal funds.

- For targeted program, balancing act between being innovative about using strategies to support at-risk students while ensuring that Title I funds must be used in a way that is in addition to services that would be provided in the absence of Title I.
- For school-wide program, need to show that Title I funds are used to supplement (not supplant) services for students from state and local funds; don't need to show that funds are being used for programs that are different from those that would still be provided
- Supplanting is presumed in following circumstances (but can be rebutted if district shows it has no alternative):
    - District uses Title I funds to pay for services it is obligated to provide under federal/ state law, such as paying for special education services
    - Title I funds are used to pay for services that were previously provided by state or local funds (reading specialist funded one year by district, next year through Title I funds)
    - Title I funds are used to pay for services at a Title I school that are provided by state and local funds at non-Title I schools
- Exclusions for programs that meet the intent of Title I
    - Schoolwide reform programs to increase achievement in schools with greater than 40% low-income students, and programs
    - Targeted programs serving students most at-risk of failing and providing supplemental educational services

In addition, Title I's *carryover requirement* provides that districts must obligate at least 85% of Title I funds within first fifteen months, and remaining 15% within next 12 months.

The benefit of consolidating funds from various sources is recognized. A so-called Title I school (one eligible for a schoolwide program under Title I can consolidate nearly all federal funds received, without being subject to most of the statutory and regulatory requirements associated with these funds, as long as funds being used to support a schoolwide program that meets the intents and purposes of each of the programs. Schools do not need to maintain separate accounts for these funds, but do need to maintain records showing that funds used for program that meets intents and purposes. States and districts are directed to encourage consolidated funds and remove regulatory and accounting barriers that would make it difficult. Colorado's Chart of Accounts allows districts to recognize schools with consolidated federal programs.

Colorado is one of twelve states that has the ability to waive certain provisions of Title I under the Ed-Flex program. Districts may request waivers from CDE. However, the maintenance of effort and comparability provisions may not be waived. It appears that few districts in Colorado are taking advantage of the Ed-Flex waivers.

Source: CDE Non-Regulatory Guidance: http://www.cde.state.co.us/cdefisgrant/download/pdf/general/fiscalguide.pdf

APPENDIX F - EXAMPLES OF SCF DESIGNS NATIONWIDE

The Edmonton Model

The most long-standing student-centered funding model in North America is in Edmonton, Canada. Implemented in the 1970s, the Edmonton system devolves 81 percent of its funding to schools under a formula that takes into account student needs such as special education and English language ability. Principals at each school control approximately 90 percent of their schools' budget, with authority to hire and fire staff and control payroll. As described in William Ouchi's book *Making Schools Work*, decentralized funding in Edmonton is inextricably tied to other district policies, such as full parent choice and a variety of education offerings. Edmonton, a district of approximately 80,000 students, currently has eight levels of funding, depending on student characteristics:

Category	Ratio	Rate
Level 1: Blended Elementary Gifted and Talented (Challenge) Junior High Kindergarten	1.00	$4,322
Level 2: Senior High (general)	1.03	$4,452
Level 3: English as a Second Language International Baccalaureate Senior High (general)	1.26	$5,453
Level 4: Academic Transition Amiskwaciy (aboriginal-focus school) Awasis (aboriginal education program) Rites of Passage (aboriginal student recovery	1.27	$5,487

program) Terra (program for pregnant or parenting students)		
Level 5: Communication Disability ECS Mild/Moderate ELL Foreign Born Refugee Background Gifted and Talented Extensions International Students Learning Disability Literacy Mild Cognitive Disability Moderate Emotional/Behavioral Disability Moderate Hearing Disability Moderate Multiple Disabilities Moderate Visual Disability Non-verbal Learning Disability Strategies (intensive programming for low-performing students with learning disabilities)	1.94	$8,386
Level 6: Moderate Cognitive Disability Moderate Physical or Medical Disability	2.17	$9,363
Level 7: Blindness Deafness ECS Severe Special Needs Severe Cognitive Disability Severe Emotional/Behavioral Disability	3.83	$16,546

Severe Multiple Disabilities Severe Physical or Medical Disability		
Level 8: Autistic Blindness Deafness Severe Cognitive Disability Severe Emotional/Behavioral Disability Severe Multiple Disabilities Severe Physical or Medical Disability	5.39	$23,281

Source: Edmonton Public School District, Office of Budget Services

In addition, Edmonton provides allocations to schools from 20 other categories that reflect school characteristics (such as smaller schools and schools with large populations of Native students), initiatives located in the school (such as community programs and early literacy initiatives), and basic operating/facilities costs.

Edmonton uses the following criteria to evaluate proposed changes to its allocation formula:

- All resources available for allocation to schools are distributed equitably in accordance with responsibility for results;
- Allocations are student-driven;
- The number of allocation categories are minimized;
- The basis of allocation is accepted, understood, and supported by all concerned;
- The information on which allocations are based is clear, consistent, and easily obtainable; and
- The administrative cost of allocating resources is minimized.

Houston Independent School District

The Houston Independent School District (HISD) weighted student funding system, first implemented in 2000-01, was designed to parallel the state funding system.

According to the district's 2009-10 Resource Allocation Handbook, the formula provides a base amount that varies depending on grade level, and then additional weights are added based on student needs. The base amount per student for elementary schools is $3,390; for middle schools, $3,415; and for high schools $3,379. Weights are used as follows:

Category	Weight
State Compensatory Education Unit	.15
Special Education	.15
Gifted and Talented	.12
Career and Technology Education Full-Time Equivalents	.35
Bilingual/ESL	.10
Mobility Unit (for schools with mobility rates of 40% of more	.10

HISD also gives schools an allocation for capital outlay of $10 per student, a Small School Subsidy for schools with fewer numbers of students, magnet allocations for magnet schools, and allocations for the optional flexible school day program.

According to Snell (2009), HISD distributes approximately 60% of the district's operating budget to schools through the weighted student formula, and this allocation represents about 80% of a school's overall resources. Principals receive budgeting support from the district's budget analysts during the budgeting process.

Decisions about staffing are made at the school level. The only positions a school is required to fund those that of a principal and a secretary. Key to Houston's system are school-based Shared Decision-Making Committees, consisting of staff members, parents, community members, and business representatives.

Cincinnati Public Schools

The Cincinnati Public Schools first implemented student-based budgeting in the 1999-2000 school year. Schools in Cincinnati receive about 75-80 percent of their funding through student-based allocations. These allocations are based on grade level and student characteristics such as giftedness, English language difficulties, low-income status, and participation in vocational education. If schools have students with particularly severe special education needs, they receive funding in addition to the standard allocation for special education. Federal revenues are described as "pooled revenues" and are distributed to schools based on the characteristics of the student population in the school.

In the 2008-09 school year, Cincinnati temporarily suspended student-based budgeting and returned to a staff allocation budgeting process in a move designed to stretch scarce resources.

Baltimore Public Schools

Baltimore has just begun implementing a decentralization plan called Fair Student Funding. According to Snell (2009), funds available to schools fall in one of two categories: "locked" and "unlocked." Locked funds are controlled by the district due to compliance issues and specialized district-level programs. Unlocked funds are those previously held by the district that have been distributed to schools based on individual student characteristics. By the 2010 school year, the superintendent anticipates that 80% of the district's budget will be redirected to schools.

Baltimore's plan has some unique characteristics. Weights are determined by academic need, but to avoid the perverse incentive for schools to allow students to perform poorly, additional funds are also provided for students performing above average. The district is also providing "hold harmless" funds as it transitions into this formula.