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0362 Colorado Commission on School Finance



COLORADO

GENERAL ASSEMBLY

**Colorado Commission
on School Finance**

**Legislative Council
Research Publication No. 362**

December 1990

**COLORADO COMMISSION
ON
SCHOOL FINANCE**

**Report to the
Colorado General Assembly**

**Research Publication No. 362
December 1990**

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To Members of the Fifty-Eighth Colorado General Assembly:

Submitted herewith is the report of the Colorado Commission on School Finance required by section 22-53-202, C.R.S. This section requires the commission to undertake an analysis of the Public School Finance Act of 1988 and to submit our findings and recommendations thereon no later than December 1, 1990.

Respectfully submitted,

/s/ Representative Paul D. Schauer
Chairman, Colorado Commission
on School Finance

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COLORADO COMMISSION ON SCHOOL FINANCE

Members of the Commission

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Senator Al Meiklejohn, Vice Chairman	Designee, President of the Senate	Second Congres- sional District
Ms. Vickie Armstrong	Appointee, Speaker of the House	Third Congressional District
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Dr. Tony Rollins	Appointee, Governor	Fourth Congres- sional District
Senator Dottie Wham	Appointee, President of the Senate	First Congressional District
Mr. Gene Petrone	Appointee, Governor	Not Applicable
Dr. Tom Howerton	Chairman, State Board of Education	Not Applicable
Dr. William T. Randall	Commissioner of Education	Not Applicable

INTRODUCTION

The Colorado Commission on School Finance was established in 1988 with the enactment of House Bill 1341. This bill was the enabling legislation for the Public School Finance Act of 1988. The General Assembly created the commission to ensure continued monitoring of the effects of the school finance act on school district funding equity. School finance funding formulas must be dynamic to accomplish their goals.

The commission is charged with undertaking an analysis of the 1988 school finance act and submitting a report to the General Assembly every two years. Although the commission submitted interim reports in both 1988 and 1989, this report represents the first of the reports required by the General Assembly. By statute, we have been specifically directed to evaluate the following issues with respect to the school finance act:

- (1) Whether the values assigned to pupil funding, instructional unit funding, school site funding, and district funding components are appropriate in light of current cost data, economic circumstances, and educational needs;
- (2) Whether districts are assigned to proper setting categories, and whether the descriptions of setting categories continue to reflect appropriate criteria for differentiation between categories;
- (3) Whether established instructional unit funding ratios are appropriate to the setting categories;
- (4) Whether there is a fair and equitable relationship between the various setting categories of districts;
- (5) How the hold harmless provision (section 22-53-107 (3), C.R.S.) has operated during the phase-in period and whether such provision should be retained thereafter;
- (6) How the system enhances or limits local control of instruction;
- (7) Whether the system fosters or impedes improvements in educational achievement;
- (8) The extent to which the system relies on local property taxes and whether it results in equitable treatment of property taxpayers across the state.

In addition to the specific directives listed above, the commission is also charged with recommending the redefinition of setting categories of districts if the commission finds that an original district assignment was incorrect or if there has been a substantial change in the factors which led to the original classification. In 1989, we did submit a recommendation for a setting category reclassification for the Durango school district. The reassignment of Durango was approved by the General Assembly through the enactment of House Bill 90-1314. As you review this report, you will note that the commission received additional requests for setting category reclassifications this year.

In reviewing the General Assembly's charge to the commission, we recognized at the outset that the limitations on available data would hinder our analysis for this first report. The original funding component values in the 1988 act were premised on actual 1986 audited expenditure data. These figures were used so that the funding component values would reflect actual school district experiences. To date, the most current audited expenditure data available are for 1988, the year preceding the implementation of the new school finance act. Final 1989 audited data are not available. We believe these 1989 figures should be considered in any exhaustive analysis of district and category funding levels and the propriety of these funding levels.

We also note that many of the setting categories were created based on economic and demographic conditions. The setting categories were originally created to improve financial equity among districts and to reflect the differing needs and characteristics of the state's 176 school districts. Some of the factors used in establishing setting categories included regional economic relationships, cost of living, population size and density, and presence of communities of interest. Yet, we find current data to be unavailable for many of these factors. House Bill 90-1314 provided funding for a Colorado Department of Education mapping of school district boundaries according to federal census guidelines. This project has been completed. Data that is expected to be available by school district following the census include: school district population; population of cities and towns within school districts; age and race of population; and housing costs. Projected data that will be available include social characteristics (educational attainment, ancestry, and languages spoken at home) and economic characteristics (labor force and income). We believe this data is necessary and appropriate for a thorough analysis of the present setting categories and the assignment of districts to such categories.

Notwithstanding the limitations that unavailability of data has placed on some of our efforts, the commission has analyzed those portions of the charge for which empirical data is available: the extent to which the school finance act relies on property taxes and whether the act results in the equitable treatment of property taxpayers across the state, and the impact of the hold harmless provisions on the specific districts affected and on statewide equity. In addition, we have looked at two other areas which have been of concern to the General Assembly — the impact of the school finance act on per pupil funding disparity within setting categories and the effect of the override election provisions of the act.

The commission conducted a series of public hearings across the state and invited school district officials to respond to the issues raised in the commission's charge. In general, school district officials commended the General Assembly for improving equity in the financing of school districts throughout the state. Nonetheless, districts expressed some concerns. Many of the issues raised at these meetings are summarized in this report. Time constraints have not permitted a thorough evaluation of all these issues for this report; however, the commission will continue to review these issues in the upcoming year.

EVALUATION OF THE PUBLIC SCHOOL FINANCE ACT OF 1988

Prior to this report, the commission submitted two interim reports to the General Assembly. While these reports included recommendations for K-12 funding levels, they also contained recommendations for modifications to the act to achieve greater equity, especially during the phase-in period. The General Assembly has enacted many of these recommendations, including adjusting the hold harmless provisions to better take into account growth and decline in enrollment; increasing the number of youngsters participating in the preschool program for children in need of language development; initiating a preschool program for three- and four-year-old handicapped children; and modifying the phase-up provisions to accommodate rapidly growing districts.

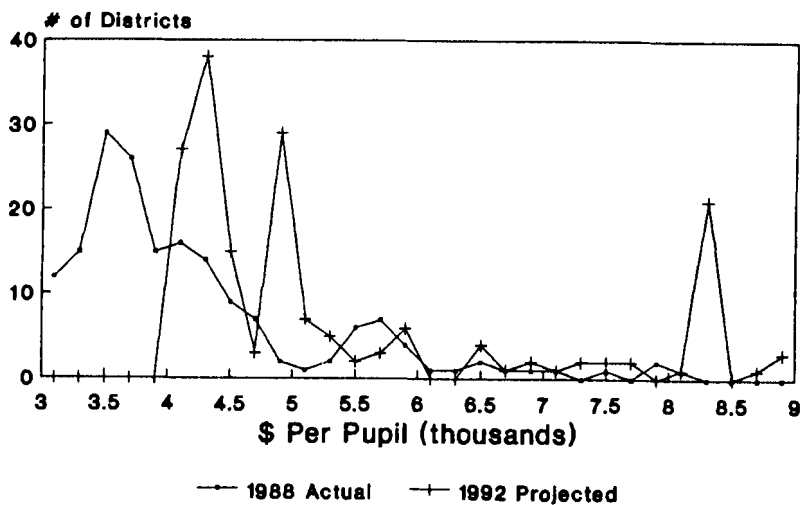
The following pages present and analyze data specifically related to the commission's charge. Disparity in per pupil funding, the statewide reliance on property taxes in funding schools and the equitable treatment of property taxpayers, the hold harmless provisions, and the override election process are all discussed. We have summarized the comments of school district officials with respect to the effect of the act on local control of instruction and educational achievement, and the appropriateness of funding component values and setting categories.

DISPARITY IN PER PUPIL FUNDING

One of the stated goals of the 1988 school finance act is to improve financial equity among school districts in providing educational services to children enrolled in public schools. It is recognized that the financial needs of school districts vary based on district characteristics. The creation of setting categories was an attempt to respond to the differing characteristics and needs of the state's school districts and thus, move toward the goal of financial equity. Districts were divided into eight setting categories based on factors that affect school district costs. The major expenditures influencing school district budgets are reflected in funding component values that vary by setting category. The results of such a categorization scheme should be a reduction in per pupil funding disparity and less reliance on wealth as an indicator of district funding.

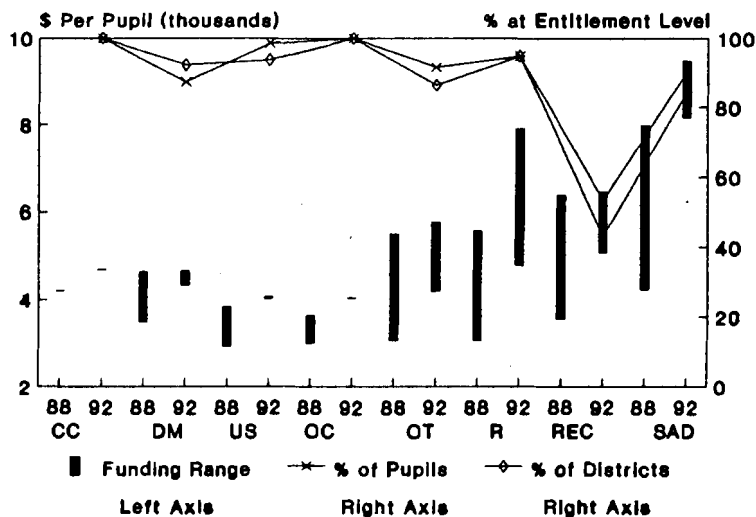
Graph 1 presents a frequency distribution of actual school finance act funding per pupil in 1988, the year preceding implementation of the new school finance act, and projected 1992 per pupil funding. (The school finance act is scheduled to be fully implemented in 1992.) The 1988 per pupil funding levels include funding for the equalized program as well as unequalized property taxes, capital reserve and insurance property taxes, small attendance center funding, and low income funding. Projected 1992 figures are based on the funding component values contained in current law, and include only the equalized program. The graph illustrates that, statewide, the range of per pupil funding has become narrower, with more concentration of district funding levels.

Graph 1
Per Pupil Funding Distribution
1988 Actual vs 1992 Projected



The disparity in per pupil funding within setting categories is analyzed in Graph 2, which illustrates the range in per pupil funding for 1988 and that projected for 1992. It also shows the percentage of pupils and the percentage of districts that will be at the category funding level in 1992.

Graph 2
Per Pupil Funding Disparity
1988 Actual vs 1992 Projected



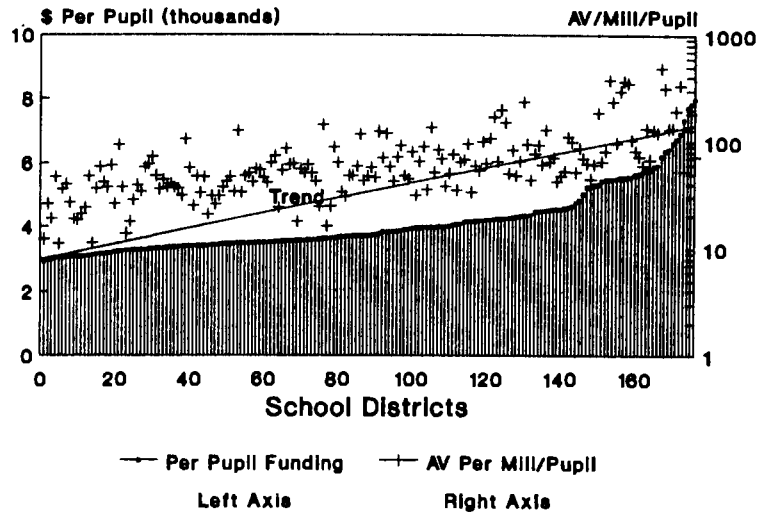
Graph 2 indicates that in all instances, the funding floor has been raised. Disparity has decreased in all but the rural category. Although funding disparity within a category is generally caused by the presence of hold harmless districts, this is not the case in the

rural category. The disparity in the rural category is the result of the “smoothing” factor which provides a transition from rural to small attendance category funding for districts with enrollment between 150 and 300. Due to this smoothing factor, entitlement funding in the rural category is not limited to one dollar value, but spans a range. The graph also illustrates that all pupils in the core city and outlying city categories are expected to be at entitlement level by 1992. The chart below ranks the categories by the percentage of pupils estimated to be at entitlement funding by 1992. The percentage of districts at entitlement funding is also included.

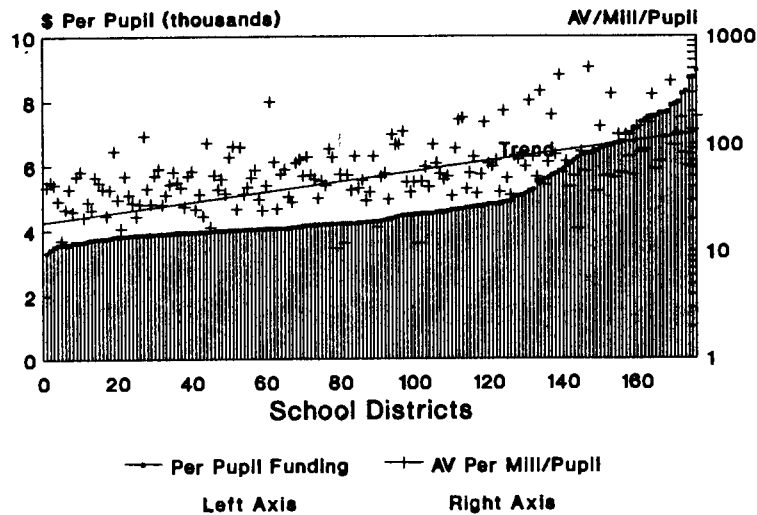
<u>Category</u>	<u>Percentage of Pupils</u>	<u>Percentage of Districts</u>
Core City	100.00%	100.00%
Outlying City	100.00%	100.00%
Urban Suburban	98.55%	93.75%
Rural	94.84%	94.83%
Outlying Town	91.60%	86.36%
Small Attendance	90.36%	84.62%
Denver Metro	87.35%	92.31%
Recreational	53.27%	42.86%

The relationship between district wealth and funding had been cited as a criticism of the 1973 school finance act. Critics contended that low wealth districts were prone to lower funding levels than wealthier districts. Graphs 3 and 4 present a statewide comparison of assessed value per mill per pupil and per pupil funding for 1988 and 1991 to assess whether any changes have occurred since the implementation of the 1988 act. In both graphs, assessed value per mill per pupil is scaled logarithmically, and a trend line is provided. Compared to the 1988 figures (Graph 3), the 1991 figures in Graph 4 appear to show some improvement in the relationship between wealth and spending. This improvement is more evident in higher funding ranges than in the lower funding ranges, however.

Graph 3
Pupil Funding vs AV Per Pupil
1988 Actual



Graph 4
Pupil Funding vs AV Per Pupil
1991 Projected



Commission findings. The analysis of pupil funding indicates that much progress is being made in reducing disparity within setting categories. The reduced dependency on wealth for funding also suggests a more equitable funding formula. Concern exists among school districts, however, that the degree of disparity between categories is inequitable, and that categories with a predominance of low wealth districts have had relatively low funding levels institutionalized. In addition, the relatively low percentage of districts in the recreational category that are projected to be at entitlement funding in 1992 is a source of concern for the commission. As noted in the introduction, little

information is currently available to evaluate these concerns. The commission intends further study of these issues as data become available.

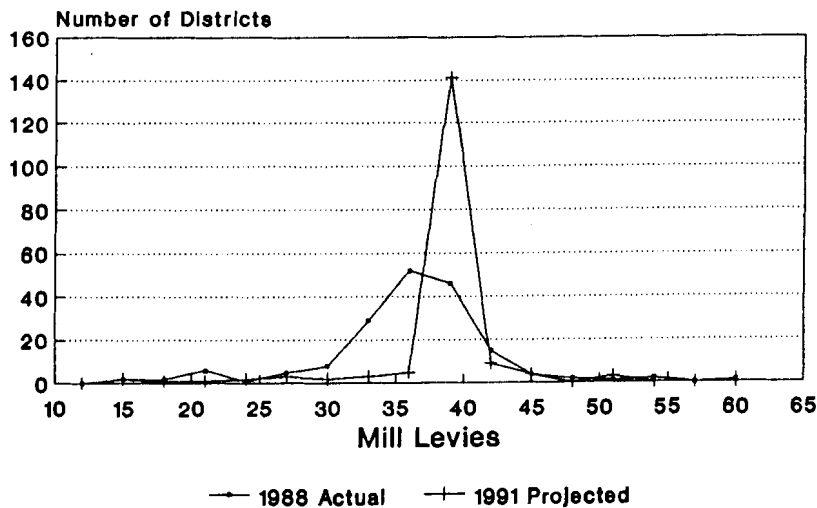
RELIANCE ON PROPERTY TAXES — TREATMENT OF TAXPAYERS

In the legislative declaration to the 1988 school finance act, the General Assembly enunciated its intent to achieve two goals with respect to property taxation and district levies: (1) improve equity among property taxpayers in school districts by moving toward a uniform property tax levy for the support of public education, and (2) limit the future growth of and reliance on the property tax for the support of public education. In a related issue, the General Assembly stated its intent to provide state assistance for the financing of projects through the capital reserve fund and for insurance purposes.

Uniform levy. The concept of the uniform levy was introduced to school districts with the 1988 mill levy certifications for the 1989 budget year. A phase-up formula was established to control the rate of increase in levies for districts that historically levied below the statewide average. Districts with relatively high levies were also subject to a phasing down of their levies. House Bill 90-1314 established the uniform rate for the upcoming years as follows: 38.3 mills for levies certified in 1990 for collection in 1991 (a reduction from the current levy of 39.627 mills); 37.7 mills for levies certified in 1991; and 37.0 mills for levies certified in 1992 and thereafter.

Graph 5 presents a frequency distribution of district mill levies in 1988 and those projected for 1991. The success of the uniform levy is clearly illustrated in this graph.

Graph 5
**Distribution of Mill Levies
Actual 1988 vs Projected 1991**

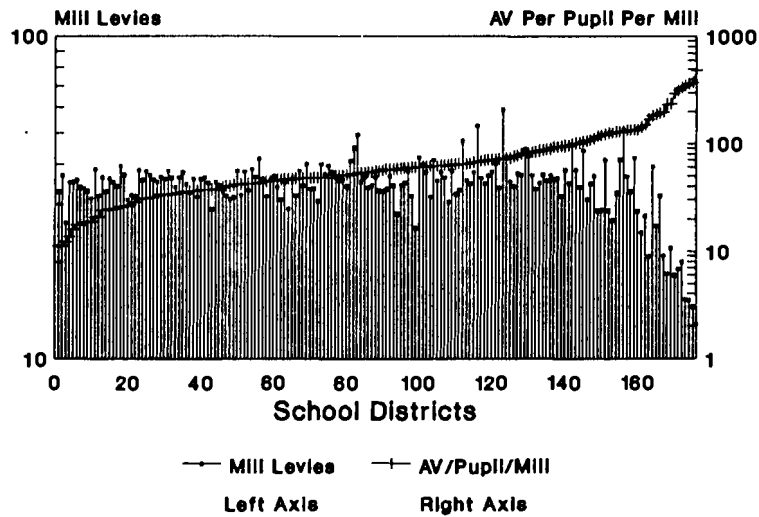


Approximately 77 percent of the state's 176 school districts are projected to levy the uniform millage in 1991. Of the remaining districts, about 10 percent are expected to impose a levy greater than the uniform levy, while 13 percent are projected to levy less than the uniform rate. All of the districts projected to levy in excess of the uniform rate are hold harmless districts that are required to levy additional mills. These figures for 1991 compare to the following figures for 1989:

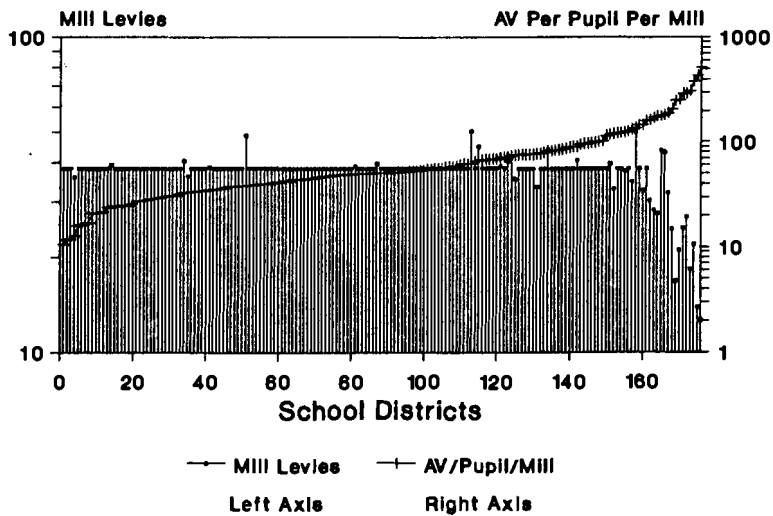
- 32.4 percent of all districts levied the uniform rate;
- 31.3 percent levied in excess of the uniform rate;
- 36.4 percent of all districts imposed a levy less than the uniform rate.

Graphs 6 and 7 explore the relationship between district assessed value per pupil and mill levy for both 1988 and projected 1991. While the graph indicates that an inverse relationship continues to exist for districts with the greatest wealth (high wealth, low levy), district wealth does not appear to be a factor in the levy for the vast majority of districts.

Graph 6
AV Per Pupil vs Mill Levy
1988 Actual

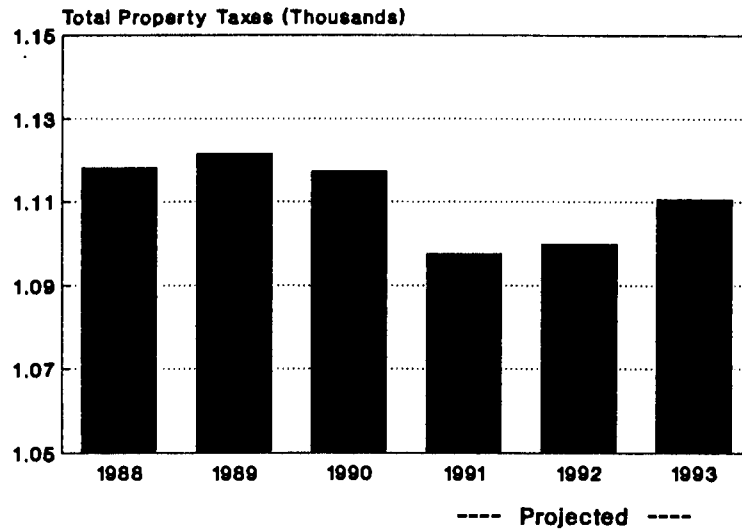


Graph 7
AV Per Pupil vs Mill Levy
1991 Projected

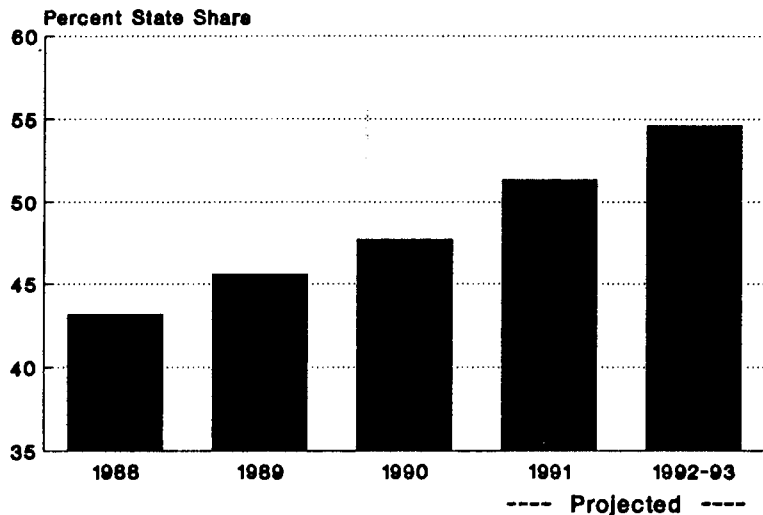


Reliance on the property tax. In 1988, property taxes accounted for \$1,118 million of school finance revenues. In 1990, they comprised \$1,117 million of school finance revenues. At the same time, total program funding statewide increased from \$1,971 million to \$2,127 million, resulting in an increase in the percentage state share of 4.51 percentage points. The projected trends for statewide property taxes and the percentage state share, based on House Bill 90-1314, are illustrated in Graphs 8 and 9.

Graph 8
Equalized School District
Property Taxes: 1988 to 1993



Graph 9
Change in Percent State Share
1988 to 1993

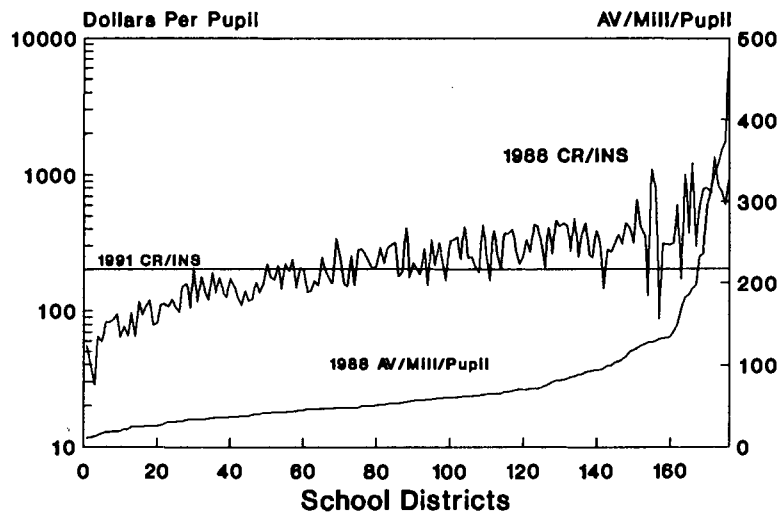


Capital reserve/insurance. Long considered by some to be the most inequitable provisions of the 1973 school finance act, the capital reserve and insurance funding mechanisms were revamped with the 1988 school finance act. Under the 1973 act, capital reserve and insurance were funded by mill levies, four mills and 1.5 mills, respectively. As a result, a district's revenue for these purposes was dependent on its property wealth. When property values increased significantly as a result of the 1987 reassessment, the flat levy was discarded in favor of a 5.5 percent increase in property

tax revenues. Because the 5.5 percent increase was based on the revenues generated by the levy, the effects of the levy formula were, in effect, maintained. Graph 10 illustrates the relationship between district wealth (assessed value per mill per pupil) and capital reserve and insurance funding (dollars per pupil).

School districts now receive \$202 per pupil for capital reserve and insurance through the school finance act. Although a district, at its own discretion, may use up to \$800 per pupil for these purposes, providing minimum capital and insurance funding through the school finance act has a distinct equalizing effect on funding these items. Graph 10 also shows the impact of the change in funding capital reserve and insurance on school districts.

Graph 10
Capital/Insurance Reserve Funding
1988 vs 1991



As can be seen in the graph, some districts have had their capital and insurance revenues reduced because of this funding mechanism. However, baseline funding for these purposes can no longer be construed to be wealth based, and all districts are on the same footing in terms of revenue available for purchasing equipment and insurance.

Commission findings. The equity resulting from the equalization of capital reserve and insurance is clearly one of the successes of the school finance act. Most, while not all, districts applauded the equity that has been achieved with this modification to school finance funding. The movement toward the uniform levy is also promising in terms of taxpayer equity. Although a wealth relationship continues to exist for those districts with very low levies, we note that most of these districts would generate significantly more revenue than they are allowed to spend if required to levy the uniform rate. Furthermore, these districts levy additional mills to “buyout” their state categorical program funding, enhancing the equity of the act.

The commission is cognizant of, and commends, the gains made in containing property taxes through the increase in the percentage state share. We recognize that this increase is the result of a commitment of state funds. However, property taxes continue to be of concern to the citizens of Colorado. Evidence of this concern was apparent in the vote on Amendment No. 1. On the other hand, voter-approved increases in mill levies for school districts continue to occur. These local levies tend to diminish the efforts of the General Assembly to reduce property taxes. While we have no recommendations to submit at this time, the commission intends further study of this paradoxical situation.

HOLD HARMLESS FUNDING

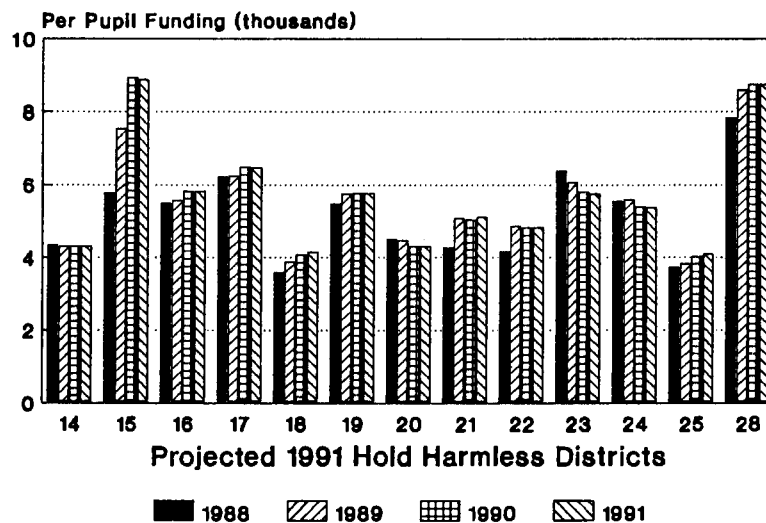
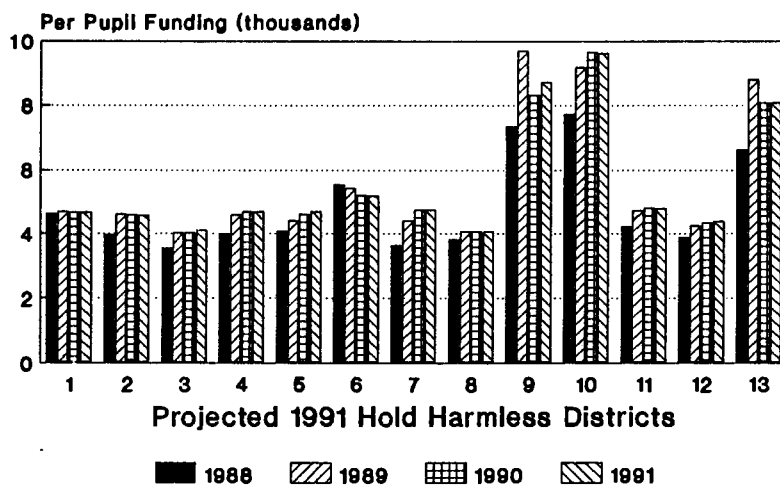
The hold harmless provisions of the 1988 act were included to maintain funding levels of those districts with historically higher funding levels than those provided in the new act. The method of providing funding for these districts has been modified in each of the years since the law's enactment.

- For budget year 1989, each hold harmless district was granted a 1 percent increase in the district's per pupil funding. A minimum increase of 1 percent of total program was guaranteed, while the maximum increase allowed was 3 percent of total program.
- In 1990, increasing enrollment hold harmless districts received the same per pupil funding as was provided in 1989, except that total program funding could not exceed 103 percent of the prior year's funding. Funding for stable and declining enrollment districts was predicated on the prior year's funding, reduced by the per pupil funding amounts for instructional supplies and materials and instructional purchased services for each pupil of decline and by the value of one unit (including capital reserve) for each four units of pupil decline.
- In 1991, increasing enrollment hold harmless districts will receive an increase in funding equal to the category, rather than the district, per pupil funding amount multiplied by the increase in number of pupils. Declining enrollment districts will lose the district's per pupil funding amount for each pupil of decline, except the total reduction in revenues cannot exceed 50 percent of the difference between the prior year's funding and the district's current year entitlement amount. In no instance can the decline in funding exceed 2 percent, however.

Graph 11 illustrates the change in total per pupil funding from 1988 through 1991 for hold harmless districts. For purposes of this analysis, the universe of districts is constant and is based on those districts projected to be hold harmless in 1991. Thus, not all districts that have been funded under the hold harmless provisions since the

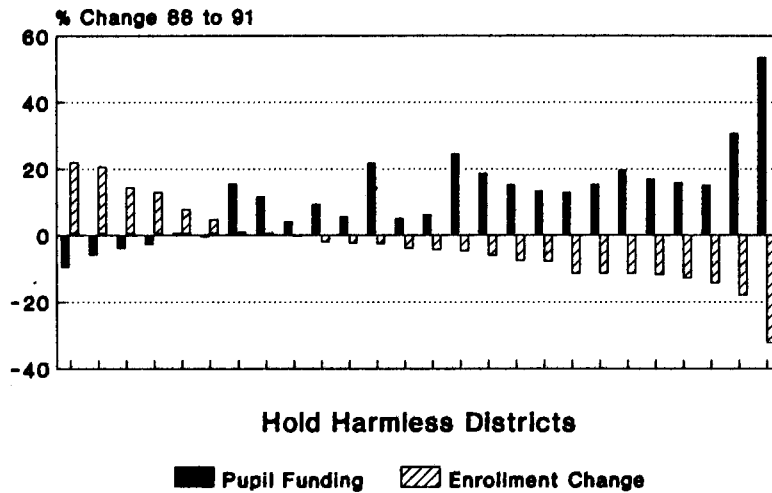
inception of the act are included in the graph. In addition, a few districts that are projected to be hold harmless districts in 1991 have not been so considered since 1989. Of the 26 districts projected to be hold harmless in 1991, it is estimated that five districts (Eagle, Lake, Hayden, Telluride, and Summit) will receive less total revenue per pupil than was received in 1988. In the remaining districts, most of the revenue increases occurred between 1988 and 1989, with per pupil revenues for hold harmless districts generally remaining stable or declining since that time.

Graph 11
Total Per Pupil Revenue
Hold Harmless Districts



Much of the change in total per pupil funding appears to be related to the district's enrollment status — increasing or declining — and the degree to which enrollment changed as well as the timing of the enrollment change. Graph 12 depicts the relationship between enrollment and the change in total per pupil funding for hold harmless districts. This graph indicates that districts with significant declines in enrollment received the greatest increases in per pupil funding, while districts with large enrollment increases experienced declines in per pupil funding.

Graph 12
Percent Change in Enrollment
and Per Pupil Funding



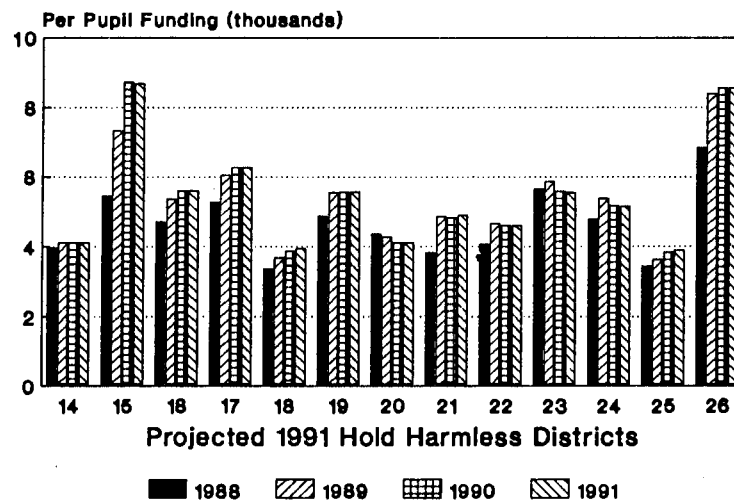
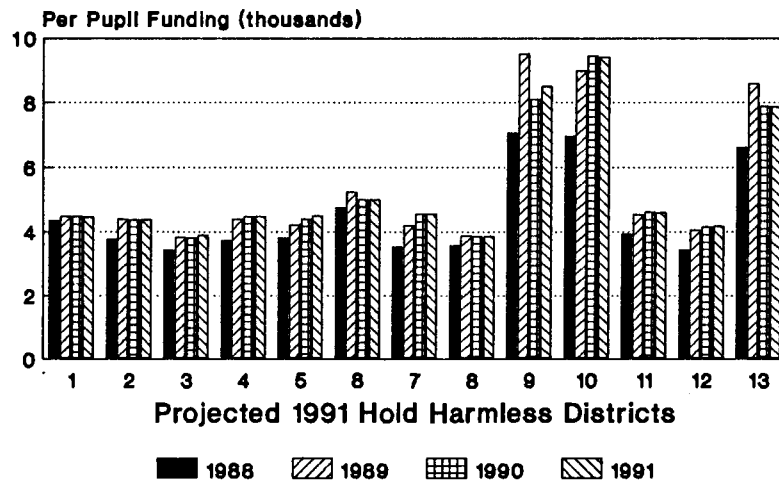
Declining enrollment districts. In 1989, each declining enrollment district was guaranteed a minimum increase of 1 percent of total program, regardless of the magnitude of enrollment decline. This provision resulted in substantial increases in per pupil funding for those districts with large enrollment declines. Per pupil funding for stable or for slightly declining districts also increased, but at a lesser rate. Although the hold harmless provision for declining enrollment districts was modified for 1990, the figures again indicate funding increases for most districts on a per pupil basis. In 1991, declining enrollment districts will lose revenue for each pupil of decline, down to the floor described earlier. It would appear that per pupil funding levels will remain relatively constant for slight decliners and increase for those districts with declines greater than 2 percent.

Increasing enrollment districts. Conversely, funding for growing districts was limited to an increase of 3 percent in both 1989 and 1990. Thus, even in 1989 when districts were permitted a 1 percent increase in per pupil funding, districts with enrollment growth greater than 3 percent tended to see declines in per pupil funding. Yet, districts with relatively slight enrollment increases benefited from the 1 percent increase in per pupil funding. The 1991 funding formula for hold harmless districts will better recognize the degree of increase in enrollment, but will, to some extent, reduce per pupil funding district wide. This reduction occurs because new pupils are funded at a

lesser amount: entitlement funding per pupil rather than the district's per pupil funding amount.

Operating revenue per pupil. A comparison of operating revenues per pupil from 1988 to 1991 may provide a better picture of revenues available for district expenditures than total revenues. In contrast with total revenues per pupil, operating revenues do not include funding for capital reserve. Thus, mill levies for capital reserve and insurance are not included in the 1988 figures. Graph 13 shows the change in operating revenues per pupil from 1988 through 1991 for each of the hold harmless districts included in Graph 11. All but two (Hayden and Telluride) of the districts are projected to have more revenue per pupil in 1991 than 1988, although again, the increase in revenue is attributed primarily to 1989.

Graph 13
Per Pupil Operating Revenues
Hold Harmless Districts



Commission findings. Graph 2, which illustrates disparity in per pupil funding within setting categories, indicates that the hold harmless provisions have not significantly increased disparity with categories. Funding for many hold harmless districts has remained relatively constant in the past two years and, in fact, has declined on a per pupil basis for some increasing enrollment districts. Many districts that receive funding through the hold harmless provisions have expressed serious concerns about the impact of stable or declining budgets on the provision of educational services.

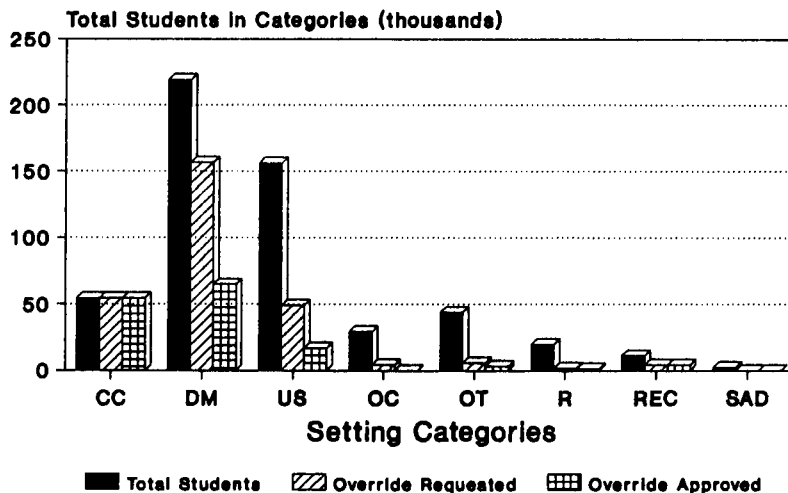
OVERRIDE ELECTIONS

When enacted in 1988, the school finance act permitted limited, voter-approved increases in operating revenues. These increases, funded solely by the property tax, could not exceed 5 percent of a district's funding level. During the 1990 session, the cap on revenue increases was raised to 7.5 percent.

We understand the General Assembly authorized, yet limited, local override elections to balance two sections of the Colorado Constitution. Article IX, section 15 vests with local boards of education the "control of instruction in the public schools of their respective districts." Yet, section 2 of this same article requires the General Assembly to "provide for the establishment and maintenance of a thorough and uniform system of free public schools throughout the state." In addition, the General Assembly considered the equity issues that may exist in an override election system that relies solely on property taxes for additional revenue: property wealthy districts may have an inherent advantage in passing mill levy elections. In such districts, fewer mills are required to generate the same amount of revenue as in comparable, but less wealthy, districts. The result — increased disparity in per pupil funding — could have severe implications for state revenues when it becomes necessary for the state to close the gap in funding between districts.

Incidence of elections. Available information indicates that there have been 28 override elections since passage of the 1988 school finance act: 14 in 1988 and seven in both 1989 and 1990 (November 1990 information is not final). Three districts have each held two elections, for a total of six elections. Of the 28 elections, 15 were successful while 13 failed. Graph 14 compares the total number of pupils in each category with the number of pupils for which additional revenues have been requested and with the number of pupils for which additional revenues have been approved. (Please note that district pupils are counted only once regardless of the number of elections per district.)

Graph 14
Override Elections by Category
1988 - 1990



On a category basis, the Denver metro category ranks second after the core city category based on the percentage of students for which an override election has been requested (71.6 percent). Following the core city and Denver metro categories are the recreational (37.2 percent), urban suburban (30.7 percent), outlying city (14.1 percent), outlying town (13 percent), and rural (10.2 percent) categories. According to information available at this time, no small attendance districts have requested additional revenues.

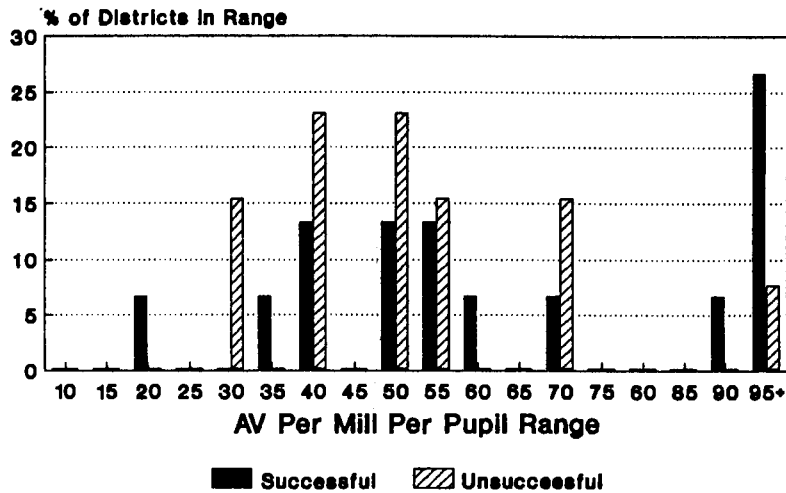
Statewide, about 27.1 percent of the students reside in districts that have approved override elections; 37.4 percent of these students are represented by the Denver school district. By category, the recreational (37.2 percent) and Denver metro (29.7 percent) categories follow the core city category based on the number of students in districts that have approved override elections. The core city category, with only one district, has 100 percent of its students covered by an override election.

District characteristics. In analyzing the characteristics of districts that requested voter-approved increases in funding, we find that nearly twice as many phase-up districts requested an increase as did either hold harmless or formula districts. One-half of these phase-up districts were experiencing growth in enrollment at the time of the election. The formula districts – or districts funded at the entitlement amount – that pursued additional funding appear to be primarily declining enrollment districts. In the hold harmless category, districts seem to be evenly split between increasing enrollment and declining or stable enrollment districts.

Relationship between override elections and wealth. The commission is cognizant of the concern that exists regarding a possible relationship between override elections and property wealth. Graph 15 presents a comparison of assessed value per mill per pupil

for both successful and unsuccessful mill levy override elections. The graph illustrates the percentage of districts within a specified assessed value per mill per pupil range for both successful and unsuccessful elections.

**Graph 15
Successful vs Unsuccessful
Override Elections**



We find that 53.3 percent of the successful elections occurred in districts with an assessed value per pupil at or below the statewide average. In districts with unsuccessful elections, 76.9 percent of the districts had an assessed value per pupil at or below the statewide average. It is interesting then that, when the entire pool of districts is considered, the district with the lowest assessed value per pupil approved its election while the electorate in the district with the highest assessed value per pupil defeated the mill levy increase. This is perhaps indicative that factors other than the district levy are considered by the electorate in an override election.

Commission findings. While the commission has no recommendations to submit at this time regarding the override election process, we do believe it deserves close scrutiny in upcoming years. The data on the relationship between wealth and the success of an override election are of some concern. However, it is doubtful that the millage rate is the only factor considered in such an election. Community confidence in district leadership and staff, the perception of the district's success in carrying out its mission, community goals, demographics, and economic conditions undoubtedly play a role in the outcome of override elections. Nonetheless, the specter of a wealth-based system is disconcerting and must be closely monitored.

The disproportionate number of increasing enrollment phase-up districts that submitted mill levy increases to the voters may indicate that the phase-up formula did not adequately respond to increasing enrollment districts. However, the phase up is scheduled to end in 1992 with full implementation of the act. Funding levels for the

1991 budget year are already established. The predominance of formula districts that requested additional funding were declining enrollment districts. This suggests the need for close scrutiny of the declining enrollment modification enacted by the General Assembly in 1990.

Finally, the results of override elections could be used as a tool to assist in determining whether the category funding component amounts are appropriate. We will continue to monitor override election results for this purpose.

SETTING CATEGORY RECLASSIFICATIONS

While the commission received several suggestions regarding the criteria for setting categories and the categories as currently constituted (discussed below), four districts submitted specific requests for setting category reclassifications. Pueblo 70 requested a reclassification from the urban suburban category to the rural category; Holly RE 3 asked that the district be reclassified from outlying town to the rural setting category; and Park R-3 (Estes Park) and Archuleta County 50 JT requested reassignment to the recreational category from the outlying town category. The commission intends to complete its deliberations on category reassignments in early 1991.

LOCAL CONTROL OF INSTRUCTION

School districts were asked their impressions of whether the school finance act enhances or limits local control of instruction. Two local control issues continually surfaced in the commission's meetings with school districts: the mandatory set asides for instructional supplies and materials and capital reserve, and the restriction on voter approved property tax increases.

Override elections. Currently, voter approved property tax increases are limited to an amount equal to 7.5 percent of a district's total program funding. While some districts congratulated the General Assembly for imposing the limit and cautioned against unlimited override elections because of equity considerations, this view was in the minority. District representatives expressed the opinion that a community should be able to supplement, without limitation, funding for education in the district. Still other districts suggested a further increase in the cap from 7.5 percent to 20 percent of program funding. Implementing a modified power equalization formula was offered as one option to address equity in the override process.

Earmarked revenues. Districts also consider the earmarking of revenues for specific purposes a limitation on the local board's ability to allocate revenues based on needs within the district. In particular, the set aside for instructional supplies and materials appears to be a point of contention for many districts. Districts offered several suggestions for liberalizing state law regarding the expenditure of the \$111 per pupil.

The recommendations were offered to enhance school district flexibility and, in some instances, to realize cost savings. The suggestions include the following:

- Permit the use of supplies and materials dollars for salaries and purchased services to construct equipment used in the direct instruction of children;
- Broaden the scope of the allowable expenditures for the \$111 to include supplies for counseling and dropout prevention and parenting programs, and supplies and materials for vocational education and special education when not reimbursed through the respective categorical programs;
- Allow a certain percentage of the \$111 to be applied toward teacher inservice and staff development programs within a district; and
- Expand the options for the \$111 to include the in-house repair and maintenance of instructional equipment, the leasing of equipment, and the purchase of items for school libraries and media centers, without a corresponding classroom instruction restriction.

ACHIEVEMENT AND ACCOUNTABILITY

The commission's charge includes evaluating the school finance act to determine whether it fosters or impedes improvements in educational achievement. Most districts indicated that not enough time has elapsed to determine whether the act has had any impact. Some districts, however, indicated that the act has either impeded educational achievement or hindered its progress because of the lack of revenue. It was the perception of school districts that much more could be done in terms of restructuring, experimenting with new teaching ideas and processes, providing services for special needs students, reducing class size, attracting and retaining a quality staff, and maintaining the physical plant structure with additional revenues.

Districts, in conjunction with their school accountability committees, have taken steps toward attaining the State Board of Education's goals and objectives for improving education in Colorado. Thus, the act has given support to district efforts regarding student achievement. School accountability committees were apparently in existence in many districts prior to the adoption of the 1988 school finance act. Districts indicated, however, that the act has had the positive effect of making these committees feel more empowered.

FUNDING COMPONENT VALUES

School district representatives related several concerns regarding the funding component values or the method of deriving these values. It was suggested that the funding component values be altered to more accurately reflect the demographic characteristics of the teacher and staff work force. Districts within each setting category that have an older work force may have less available revenue for other educational expenditures than those with a younger work force. This situation may impact a district's ability to retain quality, veteran teachers, and also create an equity problem between school districts.

Districts also cited nondiscretionary costs that are escalating rapidly: workmen's compensation insurance, fuel prices, health care costs, textbook prices, and compliance with environmental regulations. Districts suggested the use of a composite index to realistically measure the cost of consumer price changes in these areas. It was also suggested that the value of the per pupil funding components increase proportionately with that of the other funding components to allow districts to keep up with rising costs.

The funding differences between categories for the instructional salaries and benefits component was also a source of concern for some school districts. District officials indicated that the funding disparity that exists between categories is an inequitable situation.

SETTING CATEGORIES

School district officials were asked whether they believe the setting categories reflect appropriate criteria for differentiation between categories. The following general concerns regarding the setting category criteria were expressed by district representatives:

- The setting categories as currently constituted do not adequately address the demographics of the student population. The added costs of educating at-risk youngsters are not taken into account in the classification of districts.
- Other conditions that affect school district costs that were not considered in developing setting categories include: isolation, geography, and proximity to metropolitan areas.
- More consideration should be given to regional economic relationships, cost-of-living factors, and presence of communities of interest in categories in which population centers are the determining factor.

- School enrollment or population density are better determinants of school district costs than population centers. The population criterion that separates the outlying town and rural categories — a population center of 1,000 people — has little effect on the cost of operating a district.

OTHER ISSUES

School district officials offered additional observations and suggestions and cited other areas of concern. Those that were frequently mentioned are listed below.

- More emphasis should be placed on, and funding provided for, early childhood education in Colorado.
- The school finance act does not adequately address the presence of small attendance centers in school districts.
- Regarding the change in the school district fiscal year, the advantage to districts of the payment of state aid in eight monthly installments will be lost if the state reverts to 12 monthly payments in fiscal year 1994-95. The eight-monthly-payment cycle should be maintained for school districts after fiscal year 1993-94.
- Prorations of funding for state categorical programs, such as special education and transportation, and recisions of state aid make it extremely difficult for school districts to accomplish long-term fiscal planning. In addition, prorated state categorical payments impact a district's ability to serve special needs students, the very students that are increasing in school districts and require extra attention.
- The 1988 act is not as sensitive to school districts experiencing declines in enrollment as was the 1973 act.
- The requirement to fully fund the set asides for capital reserve and instructional supplies and materials has created a hardship for districts phasing up to their entitlement amount by limiting operating revenues available for other uses.
- Additional funds should be designated for research and development activities in school districts and for technology.