

**EXECUTIVE SUMMARY:**

**THE “ADEQUACY STUDY”**

**FOR THE STATE OF COLORADO**

**K-12 SCHOOL FUNDING**

**Conducted by Augenblick & Myers, Inc.  
and the Colorado School Finance Project**

**January 2003**

This report, commissioned by the Colorado School Finance Project (CSFP), includes a seven-month study prepared by the firm of Augenblick & Myers, Inc. (A&M) on the adequacy of school funding in Colorado. The report also contains work done by CSFP on two additional components related to school finance adequacy. The primary purpose of the A&M study is to determine the funding level needed if school districts are to meet

the requirements and expectations of the state of Colorado and of the federal government around student performance and school accountability.

A&M performed the following tasks:

- Used two different approaches: The professional judgement approach and the successful school district approach to calculate a base cost figure. This base cost reflects the cost of educating a student without special needs attending school in a district that faces no uncontrollable cost pressures.
- Met with representatives from 60 school districts, drawn from across the state of Colorado, to identify resources needed to assist schools and school districts in meeting state objectives.
- Estimated the adjustments that would be needed to reflect the additional costs associated with serving students with special needs, students at risk of failure, English Language Learners (ELL), as well as additional costs associated with running small school districts.

The CSFP gathered information on the public's expectations and perceptions of public schools, and on the principles guiding the allocation of resources. These principles are a critical component of the adequacy study, reflecting the values that should be considered when implementing a school finance act. An advisory committee, which included representatives from around the state, state legislators and State Board members, provided oversight to this entire process.

The school funding adequacy study was conducted to link education accountability to education funding. Many states are pursuing standards-based reform to improve schools. They have legislated specific expectations of student knowledge and performance and created statewide assessment procedures to measure school and school district performance. Accountability systems have been designed to inform the public of school and district progress, to reward schools that exceed expectations, and to provide a justification for state intervention if schools do not meet standards. Few states have analyzed whether sufficient resources are available for all districts to meet these state and federal expectations.

In addition to the state's interest in standards-based reform, the federal government recently adopted the No Child Left Behind Act of 2001 (NCLB, the Elementary and Secondary Education Act as reauthorized by Public Law 107-110 [H.R. 1]). NCLB is steeped in standards-based theory and requires states to set standards and measure student progress. It does not assure the availability of adequate resources and threatens school districts with the possibility of losing federal support if sufficient progress is not made. (The full plan is available on the Colorado Department of Education's website).

Another rationale for state interest in school finance adequacy is that most states use some form of a "foundation program" to allocate basic support, if not most support, to school districts. Under this approach, states set revenue targets for school districts and pay, as state aid, the difference between those targets and the amount of revenue districts

generate given their relative wealth and state-set tax rates. The driving force determining district revenue targets is the foundation level or base, an amount that is constant across all districts. In most states, the foundation level is determined politically, calculated as the figure that mathematically spends as much state aid as the legislature is willing to provide. Therefore, the figure has little or no meaning in relation either to the services districts are expected to provide or the performance levels they are expected to achieve. An adequate foundation program would incorporate a rational basis for setting the foundation level based on state service requirements and student performance expectations. Colorado's foundation program may promote fiscal equity across the state's school districts, students, and taxpayers but that does not mean that the system is adequate. Today, school funding systems must reflect equity and adequacy.

This study used two analytical methodologies to analyse adequacy – the professional judgement approach and the successful school district approach. The professional judgement approach is a modern version of what used to be called a “resource cost model,” or “market-basket,” approach that asked educators to specify the resource need of high quality schools. Today, the approach asks educators to identify the resources needed in prototype schools in order for students to achieve a specific set of objectives. Once resources have been specified, prices are determined for the resources which, when applied to the resources, produce a cost. Costs for elementary, middle, and high schools can be combined with district level costs to produce an overall cost per student.

Focus groups and panels of educators from across Colorado provided input to the professional judgement model. The work of these experts began at the school level. It was then reviewed at the district level, and again reviewed by the all state/expert panel. Opportunity to participate in the process was by self-nomination, or by a selection process which include criteria for statewide representation.

Our cost estimates for 2001-2002, using the professional judgement approach, show a per pupil base cost that decreases as student enrollment increases, with a minimum level of \$6,815; the base cost rises slightly in districts with over 5,200 students to a level of \$6,951. (These figures would need to be adjusted for inflation each year.) The added cost for special education is about 115 percent more than the base cost per student. Providing education services to students identified as at-risk of failure requires between 26 and 56 percent over the base cost depending on the size of the district. Finally, educating ELL students costs 51 to 125 percent more than the base cost, depending on school district size.

The successful school district approach relies on a different logic than the professional judgement approach, seeking to infer a base cost figure from the actual basic spending of school districts determined to be successful because they meet the standards used by a state to evaluate student and school performance. A&M used a method of selecting successful school districts that paralleled the Colorado approved plan to the US Department of Education for NCLB. The state set a baseline score for student performance for each CSAP test in reading and math for each school and agreed to have a

requirement that 95 percent of students must take the tests. Also included in the expectations for successful school districts was a graduation rate standard. We used a minimum of 85 percent graduation to reflect this standard. Twenty-seven districts meet all of these standards. Their pupil-weighted average basic revenue was \$4,654. (Their current average expenditure was \$6,174).

Obviously, there is a substantial difference between the figures produced by the two approaches our consultants used to estimate a base cost figure (\$6,815 for the professional judgement approach and \$4,654 for the successful school district approach). One reasonable explanation for the difference is that the professional judgement panels designed schools that would fully meet state standards, including those associated with No Child Left Behind, while the successful school districts may have met many of the state's accreditation standards but failed to meet the expectation that all students are at least partially proficient on all CSAP tests. In 2002, an average of only 70.4 percent of all students were at least partially proficient across the five CSAP tests used to set the baseline for state compliance with NCLB in 2002. In fact, 70.4 percent of the professional judgement base cost figure, \$6,815, is \$4,798, which is almost equal to the successful school district figure of \$4,654 in 2000-01 inflated by 3.0 percent to 2002 (or \$4,794).

The CSFP recommends that the base cost figure for 2001-02 be \$4,798 and that that figure be adjusted by both: (1) an annual inflation factor between 2002 and 2013-14 and (2) a factor related to the scheduled rise in CSAP performance required to meet NCLB expectations through 2013-14 (until, in 2013-14, the base cost figure would be \$6,815 adjusted by inflation between 2002 and 2013-14). In addition, adjustment factors need to be created to reflect the costs associated with school district size and the presence of students with special education needs, students eligible for free lunch, and ELL students based on the relative costs estimated by the professional judgement approach.

The "Adequacy Study" is a systematic analysis utilizing two different approaches that rely on data instead of anecdotal information. The standards used are a reflection of legislation at the state and federal level today. It is important to note that this analysis does not include facilities, transportation and food services. These items would need to be included in any new finance formula. This study does not tell people how to deliver services or how to organize schools. It honors and promotes the local decisions and indicates resources needed to accomplish the end results.