CASB 2023 Convention

Colorado K-12 Funding
School Finance – New Board Member Training

December 7-9, 2023

Glenn McClain
Former Superintendent

Tracie Rainey
Colorado School Finance Project / Executive Director

COLORADO SCHOOL FINANCE PROJECT
Support Children - Support The Future
Colorado School Finance Project

Mission: To compile, collect and distribute research-based, non-partisan information and data on topics related to school finance for state and local policymakers. CSFP also supports school districts by providing expertise, technical assistance and capacity building related to best practices in school finance.

The CSFP changed to a formal entity in 2014. We are a non-profit, Colorado-based company. The CSFP was originally created in 1995, following the passage of the 1994 School Finance Act. Our website, www.cosfp.org, contains a wealth of current and historical information on school finance with topics ranging from national funding comparisons to Colorado’s legislative history on school finance. Our sincere thanks to the many school districts and organizations (CASE, CASB, CEA, Colorado BOCES, DBO, AFT, and Rural School Alliance) who financially support our work. The CSFP could not do our work without their support.

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- Dr. Leslie Nichols - Gunnison Watershed School District, Rural Alliance
- Ken Haptonstall - Colorado River BOCES
- Dr. Jeremy Burmeister - Platte Canyon Public School District
- Deirdre Pilch – Greeley-Evans 6

CFO:

- Ashley Stephen - Platte Canyon School District *
- Shelley Becker, Vice Chair - Harrison School District *
- Scott Smith - Cherry Creek School District
- Bill Sutter, Treasurer - Boulder Valley Schools *

Organizations representing state-wide groups:

- Jubal Yennie (CASB) – school boards
- Bret Miles (CASE) – school executives
- Kathy Rendon (CEA) – teachers / staff
- Lisa Weil (Great Education Colorado) – parents / supporters of public education

Emeritus members:

- Diane Doney – Chair; retired from Littleton Public School District*
- Glenn Gustafson – CDE; retired from Colorado Springs D-11 School District *

*Financial Advisory Committee members:

- Brett Johnson - Aurora Public School District
- Colleen Doan – Douglas County School District
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Who are Colorado’s Students?

Colorado Membership 2022-23: 883,264 students

Free and Reduced Lunch students –
354,966 students, 40.20%

Special Education students –
109,623 students, 12.41%

English Language Learners (Emergent Bilingual) students - 109,809 students, 12.43%

Gifted and Talented students –
64,599 students, 7.31%

All charts can be found at cosfp.org > Student & Funding Trends > Student Population Trends
The timing of the legislatures work on school finance and district decisions for their budget are not in sync with each other.

Legislature

January to early May: The legislature convenes in January and begins work on School Finance in March or April for the upcoming school year. (i.e., January – May 2023 convening, determining funding for 2023-24 school year.)

To determine funding for the upcoming 2023-24 school year the legislature uses estimates. Once actual numbers are available and state forecasts are updated, the legislature may adjust funding to districts in January.

I. An estimated enrollment count (from May 2023) is used until CDE audits the October Membership Count in December 2023.

II. An estimated local share (local property taxes and specific ownership tax) is used until the final mill levy certification, which is determined in December 2023.
   - Special Session November 2023 may impact dates.

III. In January 2024, via the Supplemental Process, the legislature adjusts allocations to school district funding. The desired outcome is to increase revenue to reflect enrollment changes and local property tax collections. When the state does not make up what might be needed in additional revenue, it is then taken back from a school district in the form of a mid-year rescission.

School Districts

Finance decisions for the upcoming school year are decided prior to finalizing the school finance act. School districts must register students, hire staff, and determine class offerings by March of 2024. Districts must adopt the upcoming fiscal year’s (FY25) budget by the end of June 2024.
<table>
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<th>Month</th>
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<td>BOE: receives budget update</td>
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<td>State: 2024-25 Revenue Forecast</td>
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<td>BOE receives quarterly financials</td>
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<td>BOE receives quarterly financials</td>
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<td>BOE: Adoption of 2024-25 budget</td>
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School Boards Fiduciary Responsibilities

As a school board you are responsible for the following:
- Adopting a budget*
- Maintaining a fund balance
- Hiring an auditor*
- Having an audit completed*
- Quarterly financial reporting
- Financial transparency*
- Decision around taxing authority, like mill levies for total program, bonds, overrides*
- Certifying mill levies*

Things to think about:

What are your school district’s processes and procedures for your budget and your audit? Items for consideration:

Do you have a financial advisory committee?
- Process:
  1. Guiding principles for district budget (?)
  2. Preliminary Budget
  3. Proposed Budget
  4. Adopted Budget
  5. Mid-Year Adjustments made to budget
- Budgeting is a public process and can take time to gather input from all stakeholders

Do you have an audit committee?
- Audits are required by law
- Audits are looking to prevent fraud – auditors are hired outside of school district
- Must be an independent contractor
- The auditor works for the Board
- District is responsible for preparing financials and management to speak with the auditors
- Auditors render an opinion based on district information

Indicators of Financial and Fiscal Health
- Asset sufficiency ratio
- Debt burden ratio
- Operating reserve ratio
- Change in fund balance ratio
- Understanding fund balance
- Understanding Balance Sheet
- Annual audits by the state to determine district’s fiscal health

* Required for school boards
Bonds or Certificates of Participation (COPs)
- Bond Capacity
  - 25% assessed valuation
  - Ask voters for in November elections
  - Need for BEST match

- COPs:
  - Lease instead of own
  - Do not need voter approval
  - Repayment is made from the general fund
  - Can be controversial for a school district based on other priorities

Cost drivers in school districts:
- Student enrollment- growing, slowing, stable, student needs
- Salary and benefits for employees
- Transportation
- Infrastructure maintenance

Revenue sources for school districts:
- Local property tax and specific ownership tax – first dollars in
- State backfills difference to reach legislative School Finance Act (income tax and sales tax)
- Categoricals – state dollars that fund:
  - Special education, students learning English, Gifted & Talented, transportation, Career & Technical Education
  - Federal dollars – 6%
- Local mill levy override and bond mill dollars – vary by district
- One-time dollars or grants

Mill Levies
- Dollars raised locally by property taxes
- Local property taxes go toward dollars needed for school finance
- Mill levies may be used for additional dollars called “override” – outside the formula and voter approved
- Mill levies may be used for bonds to build or repair schools - voter approved
- Some districts are impacted by mill levy correction – increasing 1 mill per year till target level has been met
School districts are funded by a combination of sources defined in the School Finance Act.

The formula for total program funding is defined by the legislature in the School Finance Act. Local revenue + State revenue = Total Program Funding for a district.

1. How are the local and state revenues determined?
   a. **Local revenue is determined first**: Generated by local property taxes and specific ownership tax. You will also hear this referred to as local share.
   b. **Next, Local revenue is subtracted from the amount designated in the School Finance Act**.
   c. **The result is the State revenue portion**: (State revenue comes from sales and income tax.) You will also hear this referred to as state share or state backfill.

2. The formula also calculates the “Budget Stabilization/Negative Factor”, and an amount is deducted from the State’s portion of funding for each school district. The impact varies by school district as the calculation is on the statewide average, not calculated for each school district. Otherwise, there would be 178 school finance formulas.

Additional revenue streams to districts:

- **Federal Funds**: flow to districts that are tied to certain programs or students.
- **State funds**: “Categorical” dollars for special education, English language learners, gifted and talented, Career and Technical education, transportation, and small attendance centers. (Source: Sales and Income Tax collected by state)
- **Local override dollars**: Voter approved increases in local tax dollars for local programs and priorities. These dollars are outside the mills raised for the School Finance Act. December 2021 was the first year of implementation of mill levy correction and some districts are removing 1 tax credit a year until fully funded locally, at 27 mills, or at a district’s “re-set” mills based on when they went to voters to “de-bruce” or “de-Tabor”.
- **Grants**: Typically for a specific purpose and for a particular length of time.
- **Bond Dollars**: Voter approved increases primarily approved for capital construction. Bond dollars cannot be used for general operations in a district.
Local Revenue: Understanding the Mill Levy

$300,000
Actual Values

Residential Assessment Rate (RAR) 7.15%

$21,450
Assessed Value

$300,000
×
Assessment Rate

27%
Non-Residential Assessment Rate

$81,000

• Assessed Value Per Pupil measures a district’s property tax base on a per pupil basis—and determines how much a given mill levy will generate per pupil.

The Mill Levy is the tax rate.

• A mill is equal to 1/1000, so each mill generates one dollar per $1,000 of assessed value.

$21,450
Assessed Value

27 Mills
×

$81,000

$579.15
Property Taxes

$2,187.00

Source: Legislative Council Staff presentation 9.17.21

STATE BACKFILLS THE DIFFERENCE BETWEEN LOCAL REVENUES AND DISTRICT TOTAL PROGRAM AMOUNT SET IN SCHOOL FINANCE ACT
Revenue Inside the School Finance Act

Local Share – District Total Program = State Share

Local Share
- Property tax
- Starting point for determining state share of District Total Program
- Remains in the district.

State Share
- State “backfills” to reach District Total Program.

State & Local Share Varies (by design)

District A
- LOCAL SHARE: Local District Taxes: Property Taxes, Ownership Tax
- STATE SHARE: State Taxes: General Fund, Education Fund

District B
- LOCAL SHARE: Local District Taxes: Property Taxes, Ownership Tax
- STATE SHARE: State Taxes: General Fund, Education Fund

State Taxes: General Fund, Education Fund

Starting point for determining state share of District Total Program

Remains in the district.
The **Gallagher Amendment** was referred to the ballot by the legislature and passed by voters in 1982 to control residential and commercial fluctuations in property tax support for local governments. It created a formula that could fluctuate mill levies up and down but assured a consistent local contribution and adjust for economic changes in residential and commercial growth patterns. **In 2020, voters removed this amendment from the state constitution and placed it in statute.** The residential assessment rate dropped in 2022 and 2023 to 6.95% and the non-residential rate will remain at 29%.

The **TABOR Amendment, or Article 10 Section 20 of Colorado’s Constitution**, was passed by the voters of Colorado in 1992. Article 10 Section 20 added numerous changes and limits to Colorado’s constitution:

- **Operations of state and local governments:**
  - no taxing authority by elected officials
  - both a revenue and a spending cap for state and local governments.

- **Election process:**
  - mandates all revenue increases be voted
  - defines when and in what year elections can be held
  - requires specific language terminology that must be used when asking voters to raise revenue.

- **Situations not contemplated:**
  - Adjustments in revenue and spending limits to state and local budgets when there is a change in tax collections or a change in the economy
  - Impact of Gallaher on state and local government budgets in conjunction with Article 10 Section 20.

Between 1966 and 1990 there were 7 attempts to pass a tax limitation initiative before the TABOR amendment passed in 1992.

**Referendum C** (referred by the legislature) - passed by voters in 2005 to address the revenue limit in **Article 10 Section 20**. A time-out was granted and the ratchet effect in Article 10 Section 20 was removed. This gave temporary relief to the state’s budget.

In 2019, the Colorado Supreme Court ruled that the complete repeal of TABOR is possible as a single-subject ballot initiative. This means that an initiative could be placed on the ballot. If voter approval is obtained the provision could be repealed.

In 2020, voters approved a measure that requires voter approval of new enterprises (fees) if the revenue will be greater than $50 million within the first five years.

In 2021, the TABOR surplus was enough to fund all three refund mechanisms, including the following two which are administered by the Department of Revenue. All 2021 taxpayers will receive income tax rate reduction, from 4.55% to 4.50%.

In 2022, Governor Jared Polis signed Senate Bill 22-233 giving 2021 taxpayers refund payments of $750 to each qualified individual ($1,500 for individuals who filed jointly).

In 2023, Senate Bill 23-287 included a $180M buydown of the Budget Stabilization Factor. There are expected to be TABOR surpluses in FY 2023-24 and 2024-25.
Amendment 23 was a citizen’s initiative approved by the voters in 2000. It was designed to increase funding in Colorado after years of decline from the late 1980s through the 1990s. Amendment 23 was not a tax increase, was a diversion of state income tax to be used for education. Amendment 23:

- Required the statewide base and total funding for categorical programs increase by at least the rate of inflation. (For the first 10 years funding increased by the rate of inflation plus 1% to return funding to 1988 levels.)
  - Categoricals are outside the school finance formula – consisting of special education, Emerging Bilinguals, Gifted and Talented, small attendance centers, transportation, and career and technical education.
- Created the State Education Fund – diverting 1/3 of 1% of income tax to the State Education Fund. This revenue is exempt from TABOR limitations.

In 2009, the Legislature created the Budget Stabilization Factor a mechanism in the school finance act to reduce Amendment 23’s requirement of annual inflationary increases to per pupil funding. In 2010 the Legislature renamed the Budget Stabilization Factor to the “Negative Factor”. Then, in 2017 the Legislature renamed the Negative Factor to the “Budget Stabilization Factor.”

- This Factor takes money away from per pupil funding.
- The 2015 Dwyer ruling of the Supreme Court determined that this is legal and that the voters in 2000 allowed for the legislature to reduce funding.
- Between 2009 and 2024 the Negative / Budget Stabilization Factor has resulted in over $10 billion in lost revenue to K-12. The Budget Stabilization Factor has now been in place for 14 fiscal years.
- Once the Budget Stabilization Factor is paid off it brings us to 1988-89 Funding Levels adjusted for inflation.
Once the BS Factor has been paid off, Colorado is back to 1988-89 funding levels, after adjusted for inflation. This is prior to the standards, accountability, and accreditation systems that are currently in place.

CSFP’s district by district report of “Fourteen Years of Colorado’s K-12 School Funding Cuts 2009-2023” is available on our Budget Stabilization/Negative Factor page: cosfp.org > School Finance > Budget Stabilization / Negative Factor
What are the Elements in School Finance?

- **Base Funding** – The starting point annually for every school district’s funding through the formula. This amount is the same for every district.

- **Adjustment/Weights/Factors** – items that are adjusted for in the formula that are different for every district – At-risk, English Learners, District Size, Personnel Cost, Cost of Living.

**What is funded outside the formula for every school district? It is called “Categoricals”**.

These are dollars for Special Education, English Learners, Gifted and Talented, Transportation, and Career and Technical.

None of these additional funds cover the entire cost of these services.
Categorical Funding

Vision: Every Colorado student has access to an adequate & equitable public-school education.

Federal and State Categorical Funding:

- 35% of special education costs
- 20% of English learner costs
- 31% of gifted and talented costs (no federal funding)
- 24% of Career and Technical Education costs
- 23% of public-school transportation costs (no federal funding)
Mill Levy Correction

Beginning in the late 1990s, school districts in Colorado, based on an interpretation of statute by CDE, began collecting less local property tax for education than their voters had authorized.

Mill Levy Correction is a legislative and legal directive to fix this under collection of local property taxes for education.

Beginning in December 2021 tax credits are reduced by 1 mill a year if your school district is NOT currently at 27 mills or is NOT fully funded. The tax credit reductions will continue until a district reaches one of the following:
- 27 mills
- Reaches the mill at the “reset” rate.
- Can fully fund locally.

Mill Levy Changes began in 2021-22

An Interim Committee on School Finance working group looked at override mills of school districts. The proposal was that the state would look at school districts’ assessed valuation per pupil and the community’s median income level and then provide some matching dollars on a sliding scale to help school districts reach 25% total program funding.
The variation in how much 1 mill raises is from $6,000 to $21,765,724.

The average dollar raised by 1 mill is $817,371. The median dollar amount is $121,995.

One mill per student raises between $12 to more than $8,000.

Average dollars per student raised by 1 mill is about $343. The median is $172.
In response to the coronavirus pandemic, Congress passed three stimulus bills — the Coronavirus Aid, Relief, and Economic Security (CARES) Act, the Coronavirus Response and Relief Supplemental Appropriations (CRRSA) Act, and the American Rescue Plan (ARP) Act — resulting in nearly $66 billion in funds for Colorado. Education received 4.6% of all the federal pandemic relief dollars awarded to Colorado. These dollars were distributed in three waves.

In March 2020, the CARES Act established the Education Stabilization Fund, which initially provided funding for the Elementary and Secondary School Emergency Relief (ESSER) I Fund. ESSER I dollars were meant to address the immediate crisis and help with personal protective equipment, cleaning supplies, and other necessities like increasing technology access. In December 2020, the Coronavirus Response and Relief Supplemental Appropriations Act (CRRSA) was signed into law, providing additional federal stimulus dollars for the national Education Stabilization Fund (ESF) and these ESSER II funds were awarded to the Colorado Department of Education (CDE) on Jan. 5, 2021. The second wave was meant to help schools maintain student learning and provide stability in opportunities. On March 11, 2021, the American Rescue Plan (ARP) Act was signed into law. The ARP ESSER III funding from the ARP Act provides support for K-12 schools to help safely open and sustain the safe operations of schools and address the impacts of the coronavirus pandemic on the nation’s students. Although the ARP ESSER III uses of funds are like those for ESSER I and II, there are important distinctions between ARP ESSER III, ESSER II, and ESSER programs, including the period of funds availability, equitable services to non-public schools, maintenance of effort, and a report on efforts to measure and address learning loss.

It is important to note that these are all one-time dollars, they have restricted uses, and all the money must be spent by September 2024.
Each school district and BOCES can access fact sheets on ESSER I, ESSER II, and ESSER III. Communication and technical resources are also available.

In addition to the public information on the website, key stats are available to help districts, BOCES, and AUs know where reimbursements stand, the percentage of planned expenditures that are personnel, and the percentage of funds coded toward learning loss.
In 2022, Governor Jared Polis signed the Universal Preschool Bill into law. It requires at least 10 hours of tuition-free preschool for 4-year-olds and some 3-year-olds with qualifying factors. Funding was to come from the existing preschool program and the proceed from Proposition EE, passed in 2020. After the bill was passed, the Colorado Department of Early Childhood was created, and Dr. Lisa Roy was established as the Executive Director.

SB23-216 passed in 2023 that updated the revenue stream for UPK. Beginning in the 24-25 fiscal year, the amount transferred from the general fund is required to increase based on the rate of inflation. Proposition II was passed in November 2023 to give $23M to support Universal Preschool (same revenue stream from 2020 Proposition EE).

Districts will receive up to four revenue streams from CDEC related to UPK:

1) **Monthly payments** for 4-year-olds and 3-year-olds with IEPs (Ongoing, 8th of the month)
2) *If applicable*, a one-time payment for the **number of 3-year-olds historically served** via CPP
3) *If applicable*, one or more payments for a **hold harmless in FY23 amount you received for CPP**
4) *If applicable*, one-time payment for a **hold harmless for your preschool Maintenance of Effort for Special Education**
   - Attestation forms – one for the number of 3-year-olds you historically served, one for your FY23 CPP funding.
   - Kids you are receiving funding for – CDEC has committed to funding as of the first day of attendance.
   - Updates on the long-term solution for Maintenance of Effort (MOE) - continuing to work on possible solutions.
   - Opportunities to provide feedback - for how to improve the system for Year 2
   - CDE October Count – you are required to submit PK students to CDE.
What is the best way to define how students qualify for at-risk funding? The current way of identifying students is with free and reduced-price lunch. The pandemic changed this process as all students had access to free lunch.

In 2022, the Colorado Legislature passed HB22-1202 which promised a new measure for identifying at-risk students for the public-school funding formula. This act also established a working group to help construct and implement the measure. Results from the working group:

- Asked for a one-year delay (from 23-24 to 24-25)
- Raised concerns about availability of data (Medicaid, student address)
- Raised concerns about use of census block in rural communities.
- Raised concerns about data skew in some small, rural communities between ISP, FRL
- Did not reach consensus on all items (weighting)

CDE is planning to model actual data Fall 2023

- **Pilot:** November/early December to obtain actual student level census block information from volunteer districts.
- **Hold Harmless:** You will receive the greater of your FY23 or FY24 at-risk funding amount this year. Note that in FY24 students enrolled in Medicaid are allowed to count for at-risk funding for the first time.
  - No documentation will be required from districts.

Ongoing concerns for at-risk

1. Need the actual student count including Medicaid as well as updated census bureau data.
2. Need to ensure the model matches the intent of the legislation.
3. Current formulas being modeled take money away from highest need districts and increase funding for lower need districts.

Replaces FRL count with ISP...

**Identified Student Percentage (ISP)**

- Directly certified students (SNAP, TANF, migrant)
- Students categorically eligible for free meals (homeless, foster, Head Start, etc.)
- *Now includes Medicaid and CHP+

...and adds address-based weight

**Neighborhood Socio Economic (SES) Index**

- Census-based neighborhood indicators
- Every student assigned a census block based on their physical address.
- Many indicators to choose from
The School Finance Task Force was created by SB23-287. In this task force, there are 17 members, comprised of stakeholder groups, including superintendents, CFOs, and school finance experts. They will meet no more than 8 times and have their work completed by January 2024.

**The task force is charged with two tasks:**
1. Recommending changes to factors in the school finance formula to be enacted for the 2024-25 budget year.
2. Developing the parameters for a study, commonly called an *adequacy or costing out study*. This is to be completed by **January 2025**.

**The Task Force is charged with recommending adjustments to the following factors for the School Finance Formula:**
- Eliminating the use of multiplicative indexes for cost of living, personnel and non-personnel cost and district size
- Recalibrating, capping, or alternative methods to account the cost-of-living factor.
- Factors designed to serve students with additional needs such as at-risk, English learner and special education.
- Including other considerations other than or in addition to student enrollment and remoteness of school district for the size factor
- Securing equalization in mill levy overrides for institute charter schools based on school location, location of students, multi-district online programs and total program funding.

**Adequacy/Costing Out Study**
The purpose of a costing out or adequacy study is to determine whether a state’s school funding is adequate, equitable, sustainable and adaptable.
- The SB23-287 Task Force is charged with developing the parameters and requirements for two new costing out studies for Colorado, to be completed during the 2024 calendar year by two different vendors hired by the Department of Education.
- There are four accepted methodologies for a costing out analysis.
- An adequacy study identifies the "base" level funding which represents the resources needed for a student with no special needs in a district with no special circumstances.
- The study also identifies the adjustments needed for student and district characteristics.
  - These often include at-risk, special education, and English learner students.
  - District adjustments might include size, cost of doing business, and necessarily small settings.
- Best practice for adequacy studies includes:
  - Setting a standard that identifies the input and output requirements expected of students, teachers, schools, and districts.
  - Utilize multiple approaches, even with a single vendor.
  - Be able to reconcile why there may be differences in results from the approaches.
2016 Colorado Standard

- Inputs include minimum days of instruction, CAP4K, Content Standards, READ Act, ICAP, Graduation Guidelines
- Outputs include performance of students and the system, including the accountability system.
- Unique requirements in Colorado include responding to impact of the Claire Davis Act
- Other areas could include social emotional health.

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<th>Professional Judgment (PJ)</th>
<th>Successful School District (SSD)</th>
<th>Education Cost Function (ECF)</th>
<th>Evidence-Based (EB)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Benchmark of Success</strong></td>
<td>Ensuring students can meet all state standards</td>
<td>Currently outperforming other school districts</td>
<td>Current performance; extrapolates to meeting all standards</td>
<td>Ensuring students can meet all state standards</td>
</tr>
<tr>
<td><strong>Data Requirements</strong></td>
<td>Expertise of educators serving on PJ panels; uses research as a starting point, but defers to educators when conflict arises in resource recommendations based on their understanding of state standards</td>
<td>Expenditure data from selected successful schools or districts</td>
<td>Performance, student and district characteristics and expenditure data</td>
<td>Best-practice research, reviewed by educators; when conflict arises in resource recommendations, the EB approach defers to the research</td>
</tr>
<tr>
<td><strong>Resulting Information</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Base</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Student Adjustments (Weights)</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Resource Model</td>
<td>Yes</td>
<td>Yes (case studies)</td>
<td>No</td>
<td>Yes</td>
</tr>
</tbody>
</table>

The Professional Judgment (PJ) and Evidence Based (EB) approaches are resource-based models. Each provides a detailed list of resources at the school and LEA level that are used to generate the base and weights.

The Education Cost Function (CF) and Successful School District (SSD) are data driven approaches. They examine what the base weights are, and adjustments using current student demographic, performance, and expenditures.