

## Executive Summary

Colorado provides around 7% (\$307 million) of State aid to school districts in the form of categorical funds. These dollars are designated for particular student groups or purposes, such as special education—the largest program of this type. These funds are explicitly not included in the education funding formula but are distributed based on their own formulas or applications. This makes them effective tools for incentivizing programs that the State is interested in promoting.

Categorical funding has a number of significant downsides, however, and should typically be reserved for specific, highly targeted purposes. Because allocated funds fall outside of the formula, they are not subject to the local share calculation (directly), so funding is distributed equally to school districts regardless of their own revenue-raising capacity. This raises both equity and efficiency concerns. Revenue outside of the formula tends to also be distributed in dollar amounts, rather than as weights. These dollar allocations require regular legislative updates to ensure they keep up with inflation, as required by law. Weights—on the other hand—update annually based on changes to the base amount they are applied to and maintain proportional equity until adjusted (i.e., a 0.4 weight will always be twice as large as a 0.2 weight).

The major categorical programs currently in place in Colorado are for small attendance centers; services and instruction for English-language learners; special education; gifted and talented education; vocational education; and school transportation. This brief specifically examines gifted, vocational, and transportation (special education and ELL are covered in separate documents).

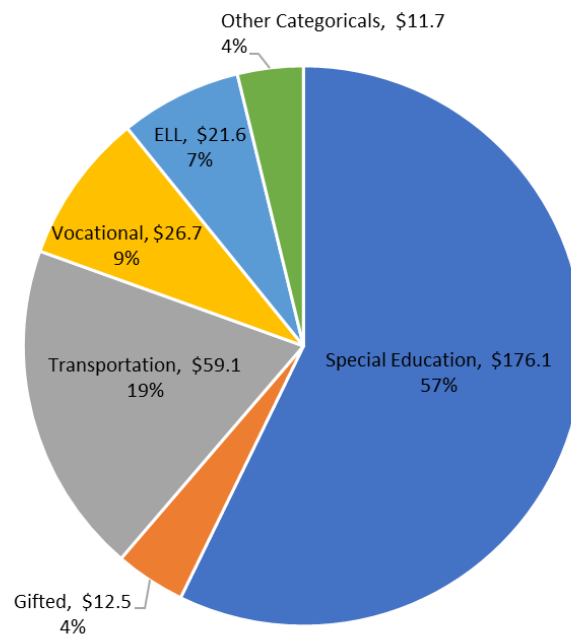
\$12.5 million was allocated for gifted education in 2018–19. For districts to receive this funding, they must submit a gifted program proposal that outlines its definition for gifted and talented, along with details like budget, personnel, and accountability plans. The approach is likely beneficial for program development, but increases bureaucratic hurdles and decreases district flexibility. The State might consider introducing gifted allotments into the funding formula through a weight and average percentage based on State identification rates, a method known as “census funding.”

Vocational and transportation funding both operate using reimbursement mechanisms created for their programs. Reimbursements allow funding to scale upward as a district’s costs increase, which can be useful when need might be difficult to estimate because of variations in cost drivers across districts; but they also force districts to shoulder the financial burden upfront and wait for payment, which may come in at a lower level than expected. Equity concerns are also present, due to the lack of a local-share calculation in either category. It may be worth considering how the State might include local revenue-raising capacity in these formulas, to allow State dollars to be more efficiently distributed.

## I. Categorical program funding in Colorado

In Colorado, funding provided through the school funding formula—what is referred to in the State as “total program funding”—includes funding for the general education program, at-risk students, and district conditions like cost of living and diseconomies of scale. However, total program funding only comprises a portion of the support that districts receive from the State. About \$307.7 million dollars (~6.9% of State aid) are allocated through “categorical programs,” which are designated for particular student groups or other specific purposes. The major categorical programs funded by Colorado are support for small attendance centers; services and instruction for English-language learners; special education; gifted and talented education; vocational education; and school transportation (Figure 1).

Fig. 1: Breakdown of Categorical Funding (in millions)



Categorical program funding has the benefit of being discrete, and therefore easily identified and tracked. It is clear whether the State is maintaining its support for English-language learners, for instance, or letting allocations shrink or lag behind the rate of inflation. Categoricals are also a useful tool for the State to incentivize specific programming, which may not be appropriate within the formula itself. Some costs (such as certain equipment purchases), are also intermittent and do not occur on an annual basis. Grants can be a useful way to help districts cover purchases that are irregular at the local level but when averaged across the State become predictable.

Categorical funding has a number of potential benefits for specific use cases, but for the purpose of estimating district need and providing regular year-to-year state aid, there are a number of downsides and limitations that should limit their overuse. For instance, because these dollars are allocated outside of the total program funding equation, they are not subject to the local share calculation that is part of that equation. As a result, these distributions are not responsive to local revenue-raising capacity; wealthy districts can receive just as much State help as districts that need it far more. This poses equity concerns.

(There is a categorical buyout provision that deducts local revenue from categoricals, but only if the property tax base in a district is sufficient to cover the entire funding formula plus some or all of the categorical allotment.)

Additionally, when funding is separately appropriated for each categorical program, these line-items are susceptible to cuts in a way that they are not when such programs are funded through the formula. In Colorado, this concern materializes less in the form of actual cuts (due to Amendment 23's protections) and more in perpetually low-levels of support. It is also difficult to assess how much funding is allocated for different purposes when some are handled through categorical programs and others are within the formula, and this lack of comparability and transparency may result in disordered priorities and the underfunding of high-need students. In FY 2018–19, Colorado allocated \$176 million for special education, for instance. For comparison purposes, over a billion dollars were allocated for the funding formula's cost-of-living factor (pre-budget stabilization).

Funding that falls outside the formula tends to be expressed in the form of a dollar amount, rather than as a weight attached to the student base. This has drawbacks. Dollar allocations must be addressed by the legislature in every budget. This is unlike weights, which are self-maintaining; their value adjusts automatically along with the base amount. Relatedly, providing most state support through weights ensures that proportional equity can be maintained as appropriations change. Once a certain percentage of the base amount has been assigned, that percentage can stay constant relative to the base and other weights, regardless of the overall dollar amount in the system. Additionally, when all student-need funding is allocated through weights, the allocations are easily comparable. It is easier for the public and educators to see how much relative support the State believes that each student group requires, and to advocate for change when they judge those priorities to be out of order.

For all these reasons, it is worth carefully considering which programs are best kept outside the formula and which make more sense included in the main formula's calculations. This brief will specifically examine three categorical programs: gifted and talented education; vocational education; and school transportation (special education and ELL are covered in separate documents).

## II. Funding for gifted and talented education in Colorado

### *Colorado's current system of funding gifted and talented education*

Colorado funds the education of gifted and talented students by providing grant money for gifted programs to school districts through the Exceptional Children's Educational Act (ECEA). In FY2018–19, \$12.5 million was allocated in funding for these students.

In order to receive this funding, school districts must submit a gifted program proposal that includes its plans for programming and instruction, evaluation and accountability, personnel needs, and a budget. Additionally, because there is no clear State definition of students who are entitled to gifted education (the ECEA includes only broad language, such as that describing gifted students as those “whose abilities, talents, and potential for accomplishments are so outstanding that they require special provisions to meet their educational needs”), districts must include their definition of “gifted and talented” students and their planned procedures for identifying such students.

In addition to providing funding for approved proposals, the State also makes available grant funding to support the implementation of universal screening procedures and to hire qualified personnel to administer the district's gifted program.

### *Assessing Colorado's current policy of funding gifted and talented education*

By making funding available for gifted education, it is likely that Colorado is incentivizing and enabling more gifted education offerings. Research has found that state funding policies supporting gifted education can be effective at increasing gifted education offerings. It is no surprise that districts are more willing to offer gifted programming when there is direct support for it, given the costs associated with training teachers and school district administrative staff how to run and maintain programs.

Program funding for gifted education may be especially helpful to low-wealth school districts, which may struggle to raise enough revenue to provide this programming without special assistance. Additionally, and importantly, this funding structure avoids one common pitfall of gifted education funding: since research shows that wealthy districts are more likely to identify gifted students than poorer districts, per-pupil gifted funding can drive more money to well-off districts. A program-based funding structure isn't likely to fall prey to this problem, because the funding is not dependent on the number of gifted students identified. Program-based funding for gifted funding may also be particularly useful to smaller school districts in the State, which might not be able to achieve the scale necessary to provide gifted programming on their own if funding were provided on a per-pupil rather than per-program basis.

However, by tying the funding to a particular program description, the categorical funding approach reduces district flexibility and diminishes the extent to which the funding system is student-based. The lack of a per-pupil allocation also makes it difficult to compare gifted funding to other distributions for particular student groups, reducing transparency and posing a challenge when it comes to prioritizing State dollars. Additionally, because school districts must submit new proposals for gifted programs each year, there is a significant administrative burden that may be more of a hurdle for small districts, and there is the potential for a lack of year-to-year resource reliability.

## *Policy options for gifted and talented funding in Colorado*

As the State analyzes gifted and talented funding, two main options present themselves:

- 1) Colorado could maintain the same structure that is currently in place. While there are some drawbacks to the current model, it is not clear that they are significant enough to require a major change.

The main benefit of this option is allowing for more time to discuss other, potentially more serious structural issues with the formula. The current appropriation of \$12.5 million is relatively small and is targeted in a way that takes advantage of one of the strengths of a categorical—incentivizing particular programs. Some negative impacts of this approach would be leaving in place the additional administrative burden on districts and the relative lack of flexibility compared to dollars that are distributed through the funding formula.

- 2) The State could move gifted funding into the formula using a weight and assumed identification rate. One of the major concerns associated with funding gifted students directly is overidentification in wealthy districts and under identification in poor areas. Some states get around this concern by using what is called “census funding,” which is an assumption that a certain percentage of any population is gifted based on the State average, rather than individual district test scores. If the State finds that 7% of students are gifted (the approximate rate in 2018–19), and funded the category through the formula instead of as a categorical, every district in the State would receive aid for gifted programming based on the assumed percentage and weight assigned to that population.

In order to implement this change, the State would have to amend Colo. Rev. Stat. § 22-54-103 to define a new category of “gifted pupils” to be funded as part of the total program, and modify the equations in Colo. Rev. Stat. § 22-54-104 to include this new funded category. Additionally, Colo. Rev. Stat. § 22-20-205 would have to be modified to reflect the change in the distribution system for gifted education funding. No constitutional change would be required, though some level of immunity to the budget

stabilization factor would be necessary to ensure compliance with Amendment 23, including a careful implementation of weights to ensure that after local-share calculations are completed the state allotments are still at the necessary levels.

This approach would allow the State to better estimate every district's need relative to gifted students, while simultaneously avoiding identification concerns. It would also subject the funding to local share, which would improve equity. The main drawbacks of this approach would be spreading a relatively small amount of funding out, to the point where it may no longer have a meaningful impact. It also removes the incentivizing nature of the current grant.

### *Funding for gifted and talented education in other states*

Thirty-one states, including Colorado, currently provide financial support for gifted and talented students or for gifted programming. There is no federal definition of giftedness, so all states must establish their own (or allow individual districts to do so). The form of this funding for gifted students varies significantly between states.

Twelve states, including Colorado, provide program-specific funding, either automatically, by application, or through a competitive grant. These include:

- Arkansas, where the state sets aside money to provide grants to school districts with outstanding gifted and talented programs.
- Indiana, where states can apply for money to support “high-ability education.”
- Maine, where the state automatically provides grant funding to districts in amounts based on prior-year expenses for that purpose.

Eight states provide funding for each identified pupil, either by applying a weight to the base per-pupil amount or by providing a flat dollar amount for each such pupil. These include:

- Oklahoma, where gifted and talented students are funded through a weight of 0.34 that is applied to the state's base amount.
- Louisiana, where gifted and talented students are funded through a weight of 0.6 that is applied to the state's base amount.

Eleven states allocate funds on a census basis, assuming that a certain percentage of students within a school district will be eligible for gifted programs and supporting that number of students. These include:

- Arizona, which provides a per-student allocation of \$75 for each student in the count of students assumed to be gifted in each district. This count is equal to 4% of enrollment.
- Hawaii, which applies a weight of 0.265 to the state's base amount for each student in the count of students assumed to be gifted in each school. This count is equal to 3% of enrollment.

It is also worth noting that in the 2019 legislative session, Texas eliminated its formula funding weight for gifted and talented students, opting instead to join the eighteen other states who ask districts to provide for gifted education out of their regular operational dollars.

### **III. Vocational education funding in Colorado**

#### *Colorado's current system of funding vocational education*

Vocational education in Colorado is run by the State Board for Community Colleges and Occupational Education, rather than the Colorado Department of Education. In 2018–19 the State appropriated \$26.7 million for this program.

Funding for vocational education is distributed on a reimbursement basis, based on an FTE basis. If program costs exceed 70% of the district's per-pupil revenue, then the State reimburses the district 80% of those excess costs—up to \$1,250. If excess costs are more than \$1,250, the State only reimburses those extra dollars at 50%.

The purpose of this funding stream is to encourage the development and implementation of programs that provide students with entry-level occupational skills and knowledge. Often this requires specialized staff or equipment, so these dollars are used to help districts meet those additional obligations.

#### *Assessing Colorado's current policy of funding vocational education*

Administering vocational funding through a categorical has the same general strengths and weaknesses of gifted education. The State's desire to expand vocational programming is promoted and districts that have a relatively large demand for these classes are aided in doing so, without punishing districts where there is less demand. Because the estimated costs associated with vocational education are program based rather than student based, having these allocations outside of the formula maintains a clean separation of revenue types. The model of reimbursement also allows State aid to scale upward based on the needs of a district each year, which is helpful for individual or infrequent needs.

The reimbursement model is more complicated however, and less transparent as a result. It also assumes that a district can shoulder costs upfront. This may be a challenge for some smaller districts, especially during an economic downturn. Much of this concern can be mitigated by consistency and speed in the administration of program reimbursements, but the introduction of any reliance on bureaucratic efficiency is always a risk.

Another issue worth attention is the use of a percentage threshold for reimbursement coupled with a dollar cap on higher reimbursement rates. This means that if a district has high per-pupil revenue levels due to higher costs—a small, rural district with a large at-risk population, for

instance—then reimbursement will not begin until a higher dollar amount compared to other districts (70% of per-pupil revenue). This may not be a problem since there is also more State aid flowing through the funding formula, but by setting a defined dollar cap (\$1,250) for the 80% reimbursement rate, the relative level of support from the State is less for those districts than ones where education cost estimates are lower.

## *Policy options for vocational funding in Colorado*

The State might consider a couple different options for handling vocational funding:

- 1) The first possibility is simply leaving the current model in place. While categorical funding can be an overused mechanism in many states, there are areas where this type of funding stream makes sense and this may be an example of that.

The primary benefit of this approach is maintaining the reimbursement model that is currently in place. While there are some concerns with this funding approach, if run efficiently it may be an effective way to scale the revenue needs for these unique programs. It also maintains a separation between student-based and program-based funding. Drawbacks include all the aforementioned weaknesses of categorical funding, including the lack of sensitivity to local wealth and local-share expectations.

- 2) An adjustment to the current categorical that may be worth considering is the inclusion of a modified local-share calculation, where the reimbursement rate is larger for less-wealthy school districts and smaller for wealthier. This could be done in innumerable ways, but the reimbursement rate could be benchmarked to the State's percentage of formula funding, as one example, or an assumed millage could be deducted, as another.

In order to implement this change, the State would need to amend Colo. Rev. Stat. § 23-8-102 to modify the calculation to include the decided upon approach.

A positive to this approach would be softening one of the major weaknesses of categorical funding, which is a lack of sensitivity to a district's ability to raise local revenue. It would avoid constitutional concerns while still maintaining a division between program and student-based funding within the formula. The greatest downside is increased complexity, which may not be worth the decreased transparency in government for a relatively small amount of money.

## *Funding for vocational education in other states*

Forty-seven states, including Colorado, provide some designated funding for vocational education. The form of this funding varies quite a bit from state to state, and several states use more than one approach.



Twenty-five states, including Colorado, provide program or grant funding for vocational education. These include:

- Maryland, which offers a competitive grant for schools seeking to implement a Pathways in Technology Early College High School (P-TECH) program.
- Michigan, which offers grants to intermediate districts to hire career and technical education counselors, for early and middle college and dual enrollment programs, and to purchase equipment.

Twenty-four states provide this funding in a fashion that is based on the number of students participating in vocational programs. This can occur either through a weight applied to the base amount for each participating student, or through an allocation to the district that is based on the number of its students in vocational coursework. These states include:

- South Carolina, which applies a weight of 0.29 to the base amount for students in grades 9-12 enrolled in these programs.
- Ohio, which provides a per-student allocation that varies depending on the particular career area that the student is studying.

## **IV. Transportation funding in Colorado**

### *Colorado's current system of funding school transportation*

To help districts with costs associated with transporting students to-and-from school, the State provides school transportation funding. In 2018–19 the appropriated amount was \$59.1 million.

For each mile travelled per vehicle, the State provides 37.87 cents. After calculating this initial reimbursement, the State funds 33.87% of leftover costs not covered by the mileage allotment. Eligible expenses are motor fuel and oil, vehicle maintenance, equipment, facilities, driver employment, and insurance. The purchase of buses and field trips are *not* covered.

At minimum, a district is entitled to the same level of funding as the prior year, though there is a reimbursement cap of 90 percent of covered costs. Also, if the State appropriates less than the necessary amount to fully fund the reimbursements, they are prorated. State funding has tended to cover roughly 60% of claims over the last several years.

### *Assessing Colorado's current policy of funding school transportation*

Aiding districts with high transportation costs is an important goal in regions where there are many sparse areas, especially in a state like Colorado where there are also geographic challenges. For instance, the National Center for Education Statistics reported that in 2007–08, rural school districts spent 5.5% of their operating costs on student transportation, compared

to 4.0% in urban and 4.5% in suburban districts. Providing a base mileage amount and moderate percentage reimbursement above that is an effective way to scale State aid and adjust to those variations in transportation spending across different types of districts, while not providing an incentive for costs to balloon over time.

The main structural concern related to transportation funding is much the same as each other categorical, which is the lack of a local-share calculation. While the district is expected to take on about 67% of excess costs, that expectation nor the mileage allotment is adjusted based on a district's ability to raise revenue locally. This is exacerbated by the State falling well short of their funding targets. If local capacity to pay was considered when calculating reimbursements, the prorated reductions would still be a likely pain point for districts, but equity concerns would, at least, be lessened.

### *Policy options for funding school transportation in Colorado*

Two immediate possibilities stand out when considering transportation options:

- 1) The current model could be kept as is. The mileage and excess cost reimbursements should roughly approximate district need, and in a state with a geography as complicated as Colorado's this may be a good-enough solution.

Keeping things the way they currently are avoids introducing an overly complicated system for estimating transportation costs which is only marginally better than what is currently in place. Balancing simplicity/transparency with accuracy can be a difficult task, but if the State believe the current formula is doing an acceptable job estimating district costs and need, then the status quo may be a good choice. However, the lack of a local-share component based on capacity to pay is still an equity concern, especially when the State is only covering ~60% of reimbursement claims.

- 2) An alternate option, much like vocational education, is to keep the calculation and format essentially the same, but to add an additional line of calculations to include an equity-based local share component. Benchmarking to the state formula percentage or deducting a set millage are two possible options for going about this approach.

To achieve this, the State would need to include language within Colo. Rev. Stat. § 22-51-104 to modify a district's entitlement based on an agreed upon local-share calculation.

Taking this angle would allow the State to keep the same general funding structure while improving the equitability of State transportation aid. It could be designed to require fairly minimal changes to the code and structure of funding. But like the vocational policy option laid out, it would also increase the complexity of the categorical

calculation and may not be worth the decreased transparency levels. With transportation as the second-largest categorical allotment, however, the State may deem improvements to funding equity worth the change.

## *Funding for school transportation in other states*

In eleven states, funding adjustments for sparsity size are made as part of the transportation funding system in recognition of the additional costs involved in transporting students in remote or sparse areas. These include:

- Minnesota, which offers transportation sparsity funding. This funding is calculated based on a ratio of the number of students transported and the total square miles of the school district.
- Mississippi, where transportation funding per student varies from district to district depending on the district's student density.
- New York, where the reimbursement formula for transportation costs considers the number of students per square mile.

## **V. Conclusion**

Categorical funding structures are useful when trying to target and promote individual programs. A relatively small amount of money can be used to help districts create new facilities or programs that they might struggle with otherwise, or to provide aid better estimated through other variables (i.e., bus mileage) rather than student demographics.

When large funding amounts are disbursed without taking into account a district's wealth and local revenue, however, that raises concerns on both equity and the efficiency of State dollars. As does the legislative challenge of updating dollar allotments each year while maintaining an equitable distribution across programs and student demographics. Weights do this automatically and require far less upkeep.

Given these issues, the State might consider including gifted education in the funding formula using a census-based model of identification, which would sidestep concerns related to over- and under-identification of students. It may also consider options where vocational and transportation funds could be subject to a local-share calculation without the necessity of their inclusion in the formula, which may improve their effectiveness as they are better targeted at districts that need the revenue the most.