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An Economic Analysis of HB18-1232

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HB18-1232 proposes a new funding formula for all early childhood, primary and secondary schools in the state. If passed, this *New School Funding Distribution Formula* will replace the existing

## y of the bill.

Prior to 1994, state-level funds accounted for about a third of public school funding in the state, leaving the other two thirds to local property tax revenues and mill levies (Colorado School Finance Project, 2015). The 1994 School Finance Act changed the ratio of state to local public school funding. With a current total state-generated budget for school funding of about \$7 billion, state-level revenues contribute to about 64% with the remaining 36% left to local property taxes and vehicle registration taxes (Colorado Department of Education, 2017). The 1994 formula determines the allocation of state funds according to district size, the cost of living in each district, the costs of personnel, the percent of the percent of students that qualify for free-and-reduced-lunch, and the percent of on-line students.

## The new formula proposed by HB18-

broadens the eligibility for supplemental per-pupil funding. Following the 1994 model, the state government will contribute the majority of funds to public and charter schools via a state-wide funding base. Additional socio-ec will supplement the state-provided base in an attempt to distribute funds to the districts that most need them. The supplements will be provided according to district size based on enrollment, poverty as measured by the amount of students with free-and-reduced-lunch, an English-language-learners factor, a special education factor, a gifted children factor, and a cost of living factor.

The bill increases the total state level of funding by about \$1.3 billion. The amount allocated to school funding from local revenues will not change, so the state-to-local ratio overall will increase.

school in 4 years, making Colorado the third-worst in the nation in supporting these students (Kelley, 2017). This means that low-income students, who account for 46% of Colorado high school students, are less likely to generate the positive externalities associated with education. This justifies redistribution of school funds in their favor. Raising the state to local funding ratio decreases poor districts reliance on their own resources, reducing their disadvantage. This will improve the quality of education in these areas and widen the spread of the positive externalities associated with education

Further, HB18-1232 proposes a redistribution of government funds that will benefit particular students and groups. Particularly, it suggests providing more funding beyond the district level base to schools with higher English-language learner enrollment (ELL), special education enrollment, and gifted and talented (GT) enrollment levels, alongside the other factors already included in the 1994 formula. Justification exists for the supplemental focus on these groups for the sake of economic efficiency.

Non-native English speaking students face significant disadvantages in their school experiences and outcomes. In Colorado, a state with a 77% graduation rate, only about 59% of students in EL programs graduate. The California Dropout Research Project the economic costs for EL students who fail to

2013). This is because these students are less likely to generate positive externalities than their peers with high school diplomas.

Economic evidence also justifies distributing high funding levels towards special education. Several international studies indicate that special education provides a social return 2-3 times higher than the investment in the education of traditional students (Myers, 2016). These positive externalities Gifted and talented programs can also provide positive social benefits. Students identified as gifted and talented provide high returns to society following their education. One study found that 2400 high performing students produced 817 patents by age 38 (Park et al, 2007). This suggests that GT students produce public goods like research and development at extremely high rates. Funding their education can be seen as social investment with a high return.

However, the students in Park s study did not receive special enrichment. This indicates that students in GT programs generally do well in school naturally and do not face disadvantages in producing the positive externalities associated with their education. Supplementing GT funding diverts funds away from other student groups who might require extra support in order to graduate and realize these externalities. Redistribution to students already identified as GT and placed in specialized programs is not economically justified.

In Colorado, a low percentage of students in GT programs are low-income, EL students or students of color, indicating the inaccessibility of GT programs to talented minority students (CDE, 2017). Legislation should help gifted minority students access programs that will help them to generate positive externalities for society. This paper proposes an amendment to darify that this supplemental subsidization of GT programs focuses on identifying more disadvantaged students who are gifted and making these programs more accessible to them.

## Overall, the S

funding of education, this bill will maximize the positive externalities of education by supporting the students that most need help in completing their education and generating its benefits. The expansion of per pupil funding for under supported groups with significant economic potential will uncover additional positive externalities. Therefore, this paper encourages the passage of HB18-1232 in order to promote accessible quality education and economic prosperity for the state of Colorado.

Colorado School Finance Project. COSFP, 2015.

Colorado Department of

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Education. Colorado Department of Education School Finance and Operations Division, 2017. Web.

Colorado Department of Higher Education. **CDHE, 2016. Web.** 

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