Funding Our Future

An Approach to Fund Education
In Rhode Island

April 2007

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I. Introduction

Rhode Island has not had a predictable school aid formula since the mid 1990s. For over a decade, policy makers have struggled to develop and enact an education funding formula that insures school students, school districts and taxpayers, adequacy, predictability and fairness. As far back as the Swearer Commission report in the 1970s, state education leaders have examined alternatives to Rhode Island's traditional reimbursement system.

The "Guaranteed Student Entitlement" initiative in the early 1990s highlighted the need to focus on both education funding and property tax relief. In the 1990s, Governor Lincoln Almond commissioned a special task force to examine state education spending and more recently the Rhode Island Public Expenditure Council and municipal leaders proposed an aid formula deemphasizing the reliance on property taxes.

Currently, Rhode Island's General Assembly has created the "Joint Committee to Establish a Permanent Education Foundation Aid Formula for Rhode Island." The Committee, charged with examining all aspects of funding education, has recently issued a report which describes the investment needed to provide adequate support for public schools. While that report carefully examined several different methodologies for determining the cost of "adequacy", its most telling finding was the general convergence of these methodologies upon a base cost per pupil.

Building on these previous efforts a group of public policy organizations, the Rhode Island Public Expenditure Council, the Rhode Island Association of School Committees, the Rhode Island Federation of Teachers and Health Professionals, The Education Partnership, the National Education Association Rhode Island, the Rhode Island League of Cities and Towns, and the Rhode Island School Superintendent's Association have held informal meetings since mid-2006 to define a formula model for consideration and possible adoption by state leaders. Our discussions have led to a consensus on the principle elements of a formula design that we feel reflects the essential qualities of adequacy, predictability and fairness for students and taxpayers. However, the group also recognizes that the proposal presented here is still a work in progress as of this writing, and that a variety of policy decisions remain to be addressed.

II. Formula Approaches: A Broad Overview

This report considers alternative methods of financing public education, outlines issues to consider in designing a school finance system, and suggests an approach to reform Rhode Island's state-local school finance system.

There are essentially four types of school funding systems – Flat Grants, Full State Funding, Foundation Programs, and District Power Equalizing approaches. It should be noted that there are numerous variations within these funding systems. This diversity results because school funding reform does not take place in a vacuum. Indeed, the design of any formula approach is invariably the result not just of the textbook

application of public finance formulas, but is also influenced by local political traditions, available revenues, existing property tax practices and incremental changes based on a current level of support. Therefore, development of a school aid formula will, by necessity, reflect the unique conditions in a state as well as current levels of local property taxes and a state's overall fiscal capacity.

In developing a permanent and predictable school funding program, the Adequacy Group attempted to recommend a system where:

- The State ensures that its school funding structure adequately reflects the educational cost differences of different "high-need" students, and closes the educational inequities among the State's school districts;
- The State education funding system provides a predictable amount and source of funding to ensure stability in the funding of schools;
- The State recognizes that districts of limited fiscal capacity must receive greater state aid than their higher wealth counterparts (a classic wealth equalization principle inherent in virtually all formula approaches, except the flat grant model); and,
- The school funding system treats property taxpayers equitably, limits the portion of school budgets financed by property taxes, and establishes sufficient cost controls on school spending;

Of the four methods generally employed to finance public education the options analyzed, modeled and reviewed by the Adequacy Group were the Foundation Support and the Power Equalizing options. Flat grants were not considered because this approach is not wealth equalizing but grants each district the same dollar award per pupil regardless of sharply different fiscal capacities among districts. Nor was Total State funding considered a viable option because that approach would require a statewide property tax, and typically denotes significant changes in governance structures. In considering both the Foundation Support and Power Equalizing methods of financing public schools, the Group found that each formula has its advantages and disadvantages. The Foundation program stipulates both a desired, or targeted foundation-spending level per pupil to be achieved, and typically requires each district to tax itself at a stipulated, minimum tax effort rate. Under this model, the State then "makes up" the spending difference per pupil in the amount per pupil raised by the district through a statewide minimum tax rate and the desired foundation level per pupil.

Power Equalizing systems equalize on the fiscal capacity side compensating for significant limitations in districts of relatively limited property wealth per pupil to achieve equity. In effect, these systems enhance taxpayer equity by ensuring that each district can "raise" the same amount per pupil at the same tax rate – regardless of stark differences in the property wealth per pupil among districts. Under these power equalizing formulas, what is "equalized" is the effective "tax base" of the school district, i.e., each district is "guaranteed" a certain full value wealth per pupil (even if the

district's "real wealth" may be much less), so that one added dollar per $1000 of full value of tax effort anywhere in the state will raise the same revenue per pupil.

As a result of evaluating numerous funding options, it was the consensus of the Group that key elements of both the foundation aid formula and power equalizing approach should be incorporated into Rhode Island's school aid formula.

The bottom line in designing a school aid formula is that a number of policy goals interact and compete. These include pupil equity, taxpayer equity, adequacy, student and school performance, governance, property tax relief, and long term sustainability (protecting the aid system from fluctuation in economic cycles). Clearly, a delicate balance must be reached among these goals and trade-offs will be required by policy makers. "Perfect" must not be considered the enemy of "good."

However, in the eyes of this Group, several policy goals were paramount:

- First, we must ensure that the goal of achieving an *adequate spending* level per pupil is achieved, one deemed sufficient (through a variety of methods) to ensure that all children have the opportunity to achieve a sound, basic education. By stipulating a $10,000 per base pupil spending level in our formula recommendation, we are confident that we do that.
- Secondly, we have embraced the pupil equity principle of "the equal treatment of equals and the unequal treatment of unequals" by explicitly recognizing that different categories of pupils require greater (or lesser) levels of State and Local support to perform at adequate levels. This compensatory recognition of student-need differentials is integral and one of the most critical factors to be addressed in any effort to finance public education. Therefore, the weighting of student needs must be carefully considered when designing a school aid formula in order to enhance vertical equity.
- Third, the Group also supports the wealth equalization principle embedded in all of these formulas, namely, the notion that State Aid per pupil should be allocated to districts in inverse relationship to their wealth. Districts that already enjoy a high level of wealth per pupil should receive less State Aid per pupil, than districts which enjoy a very limited fiscal capacity per pupil. However, we are also mindful that a strong state-local partnership in the improvement of education must *not be so formula hidebound* that it provides no support to the wealthiest districts. In addition, we may want to recognize that traditional *property-based wealth measures* for determining the state's sharing ratio are not the only measures of district fiscal capacity.
- Fourth, the Group recognizes that the application of *any* systematic formula structure to Rhode Island's current education finance system could cause significant impacts without appropriate save-harmless provisions, and a multi-year transition plan. Those concerns have been addressed in this proposal.

These are the broad policy principles which this Group has embraced. We would have benefited from greater time in our deliberations. However, we collectively recognize that providing adequate State support for elementary and secondary education is an issue that cannot wait; it requires the immediate attention of the Governor and General Assembly. Because of the urgency of the situation, the Group is providing this preliminary report to policy-makers in the hope that immediate progress can be made to provide a balanced state-local system for financing public education.

The Group understands that this proposal is the starting point to build a consensus of what would constitute as a fair and adequate method of funding K-12 education. And, as we noted earlier, time did not permit us to more fully address a variety of related policy issues. For example, several major policy issues still need to be resolved. These include the following:

- Adjusting the formula for projected enrollment changes; the cost estimates depicted here are based upon average daily membership (ADM) data, pupil-weighted, for the most current data year 2005-2006.
- Building an inflator into the foundation program support. It should be clear that *without such an adjustment*, the desired Foundation level per pupil of $10,000 rapidly becomes insufficient after 2-3 years on a constant dollar basis.
- Determining if the minimum 25% State share should be applied to either the per pupil foundation amount or the district's total budget.
- Determining a method of weighting special education students as well as the State's share for severely disabled students, and studying the potential of future weighting for certified after school programs, children in extreme poverty, and the gifted and talented.
- Determining if current programs are restricted and if the programs, such as professional development, should be funded outside the formula.
- Adjusting the formula for median family income in determining a community's wealth. As noted earlier, traditional wealth measures used in Power Equalizing and Foundation formulas are based on property wealth. Such formulas can in selected cases (typically in districts whose property wealth per pupil in relation to a statewide average is much greater than its relative income wealth per pupil in relation to the statewide average) inaccurately reflect a community's general fiscal capacity. Use of a "combined" wealth measure which addresses both property wealth and income wealth should be carefully examined.
- Promoting the efficient use of resources in our schools.

III. Foundation Support Program

The majority of states use some form of Foundation support program to finance their public schools. The structure of the Foundation program is relatively straight forward: the state sets a Foundation level and a minimum local tax effort and then funds the

difference between the amount generated by the local property tax and the amount guaranteed as a Foundation.

For example, if the desired Foundation support level were $10,000 per pupil, and the required local tax effort was $8.50 per $1,000 of property value, for a school district of roughly average property wealth ($ 600,000 of property wealth per pupil), then the district would raise $5,100 per pupil ($600,000 Full Value/pupil x .0085) and the state would provide $4,900 per pupil in aid. If a second, poorer-wealth district with only $300,000 of property wealth per pupil were to levy the same $8.50 tax rate, it could only raise $2,250, but the state aid would increase to $7,750 per pupil – the balance needed to achieve the Foundation-level of spending of $10,000 per pupil.

In summary, a Foundation support program generally guarantees a certain foundation level of expenditure for each student, together with a minimum tax rate that each school district must levy for education purposes. The difference between what a local school district raises at the minimum tax rate and the foundation expenditure is made up in state aid.

How Would A Foundation Plan Work? – The foundation program would calculate each school district's budget based on the foundation per pupil amount and the weighted student enrollment in each school district. Many foundation formulas adjust funding upwards for students at risk. Table 1 displays the impact of weighting students for needs based on a hypothetical community. As shown, the actual enrollment of the Community is 1,875, but the total weight enrollment to which the foundation amount of support is applied to is 2,048 weighted students.

Table 1

Adjusting for Student Need – Community A Example

	Enrollment		Hypothetical Weights		Weighted Enrollment
Total Enrollment	1,875	X	100.0%	=	1,875
Special Education	350	X	20.0%	=	70
Subsidized Lunch	400	X	25.0%	=	100
Language Assistance	30	X	10.0%	=	3
Total Weighted Enrollment					2,048

The following table demonstrates how a foundation program would work in four hypothetical communities. In this example, if the State were to establish a statewide property tax rate of $10.00 per $1,000, it would raise different amounts of property taxes depending on the tax base of each community. In Community A, a tax rate of $10.00 per $1,000 of assessed property value would generate $22.5 million in local revenue.
However, Community A's total budget is only $20.5 million. Therefore, this community would only be required to raise the $20.5 million – which translates into a tax rate of

$9.10 per $1,000. Some Foundation programs (those which, like Vermont, include "recapture" provisions) could require that Community A levy the full $22.5 million, with the amount in excess of the Foundation amount being redistributed to poor communities – the so-called "Robin Hood Effect."

Table 2

Summary of Financial Impact of Model
(Hypothetical Model for Illustration Purposes)

Hypothetical Community	Students Weighted	Student Budget Weighted	Assessed Value	Property Tax $10.00	Estimated State Aid	State Aid Per Pupil	Percent of Budget Supported By: Local	State
A	2.048	$20,480,000	$2,250,000,000	$22,500,000	$0	$0	100.0%	0.0%
B	7,020	70,200,000	3,000,000,000	30,000,000	40,200,000	6,432	42.7%	57.3%
C	4,795	47,950,000	2,500,000,000	25,000,000	22,950,000	5,246	52.1%	47.9%
D	2,496	24,955,000	1,500,000,000	9,955,000	9,955,000	4,551	60.1%	39.9%
Total:	**16,359**	**$163,585,000**	**$9,250,000,000**	**$92,500,000**	**$73,105,000**	**$4,977**	**56.5%**	**44.7%**

However, in theory at least, this would also mean that the State would not provide Community A with any State aid. Conversely, Community B would generate $30.0 million from a tax rate of $10.00 per $1,000. Its school budget totals $70.2 million. Therefore, the State would provide this community with the difference - $40.2 million.

What makes this process complicated is that the tax rate would *replace* existing local rates for education. Community A may have been spending more than what has been established through the foundation process. This would mean that Community A would have to either reduce its education budget to the foundation amount or increase its local option provision higher to accommodate its desired level of spending. However, Community D may have been raising $20.0 million in local property taxes to support its local school budget. But the foundation program at $10.00 per $1,000 requires Community D to generate $15.0 million in local property taxes for schools. Therefore, assuming this prior level of taxation, the foundation program would result in the State providing direct property tax relief to Community D.

The Group prepared a model foundation aid formula in order to better understand the impact such a funding formula could have on school finance:

- Foundation Amount Per Pupil $10,000
- Student Weighted
  - Enrollment 1.00
  - Special Education 2.00
  - Free/Reduced Lunch 1.50
  - Limited English 1.20
- Foundation Tax Levy 8.50 per $1,000

Table 3 sets forth the impact a foundation aid formula would have on a district's effective tax rate. This table compares a community's existing property tax rate that supports schools to a hypothetical statewide urban property tax of $8.50 per $1,000. The purpose is to illustrate that there would be winners and losers if a revised minimum rate was adopted in lieu of a community's current tax rate. In analyzing Table 3 no conclusion should be reached regarding a community's current tax effort. Analysis of this data indicates that 12 districts would have a higher effective tax rate than they currently have.

Table 3
Potential Tax Rate Impact
Based on Foundation Formula

School District	Current Effective Tax Rate	Foundation Effective Tax Rate	Change
Barrington	11.28	6.15	(5.13)
Bristol - Warren	6.33	7.76	1.43
Burrillville	8.51	7.41	(1.10)
Central Falls	-	7.16	7.16
Chariho	7.09	7.66	0.57
Coventry	10.15	7.82	(2.33)
Cranston	10.43	6.29	(4.14)
Cumberland	7.76	7.90	0.14
East Greenwich	10.46	6.54	(3.91)
East Providence	9.43	7.47	(1.97)
Exeter - W. Greenwich	9.23	6.45	(2.78)
Foster	10.16	7.13	(3.03)
Foster - Glocester	10.16	7.13	(3.03)
Glocester	10.16	7.13	(3.03)
Jamestown	5.26	7.52	2.26
Johnston	10.02	7.42	(2.60)
Lincoln	11.48	5.95	(5.54)
Little Compton	2.80	7.50	4.70
Middletown	6.82	6.11	(0.71)
Narragansett	4.55	5.51	0.96
New Shoreham	1.55	6.02	4.47
Newport	3.49	4.52	1.03
North Kingstown	9.31	7.53	(1.78)
North Providence	8.40	6.86	(1.55)
North Smithfield	10.78	7.53	(3.25)
Pawtucket	5.20	5.73	0.53
Portsmouth	6.47	7.78	1.31
Providence	9.37	5.19	(4.18)
Scituate	7.37	3.55	(3.82)
Smithfield	8.21	7.57	(0.64)
South Kingstown	8.65	7.44	(1.21)
Tiverton	8.10	6.29	(1.81)
Warwick	9.70	7.44	(2.26)
West Warwick	10.27	7.45	(2.82)
Westerly	6.94	7.39	0.45
Woonsocket	4.82	4.34	(0.49)
State Average	7.97	6.62	(1.35)

(1) Source: Office of Municipal Affairs and RIPEC calculations.

IV. District Power Equalizing (DPE)

The Power Equalizing school aid formula generally refers to a state aid program that equalizes the ability of each school district to raise funds for public education. In theory, the objective of the DPE program is to guarantee to both property-poor and property-rich school districts the same resources from the same property tax rate. DPE programs are given different names in different states, including Guaranteed Tax Base Programs, or Guaranteed Yield Programs.

In all cases these programs equalize the ability of local school districts to raise revenue for public education. Power equalizing programs are designed to ensure that poorer wealth districts have the ability to raise revenues for local education without taxing themselves far more onerously than their high wealth counterparts to achieve the same spending level per pupil. Ideally, the State guarantees localities access to the same property tax yield for the same property tax rate until the desired Foundation level of spending per pupil is reached. In essence equal property tax rates in communities of widely disparate property wealth per pupil still results in equal per pupil expenditures. In other words, the wealthier the district, the fewer resources it receives from the state, and the poorer the district, the more resources it receives from the state. These formulas work as a matching grant system meaning the community as the community raises the local tax revenues necessary for education and the State reimburses on that basis.

Power equalization systems equalize fiscal capacity, compensating for the relative wealth of each community to achieve equity. These programs allow poorer communities to increase spending through the state by effectively subsidizing property tax rates. However, because they tend to be reimbursement driven, this method requires an up front local effort to capture state dollars. The problem is simple: one must have money to spend in order to be reimbursed.

Up until FY 1995, Rhode Island used a form of power equalization known as percentage equalizing, for its general educational aid. The Rhode Island system reimbursed communities for education expenditures based on a state sharing percentage that was calculated based on the property wealth of the community adjusted for the median family income of community residents. The relationship between wealth and reimbursement was inverse, meaning that the wealthier the community, the less State aid it would receive.

When Rhode Island enacted its Foundation Level School Support Act of 1960, the law established a minimum guarantee of 25 percent, regardless of the wealth of the community. In 1967 the minimum guarantee was increased to 30 percent, and for budgetary reason was reduced to 28% in 1983. The recession in the 1990's prompted several changes in the State's education funding system, including the phase-out of the minimum share in 1995. Rhode Island still employs this method to reimburse school districts for their costs of constructing, rehabilitating and maintaining school facilities.

In a traditional DPE program the state guarantees to both property-poor and property-rich school districts the same dollar yield for the same property tax rate. In essence, equal tax rates produce equal per pupil expenditures (at least up to the targeted level of foundation spending per pupil). However, this does not recognize the limits on local property taxes that exist in a majority of states. Nor is it as flexibly suited to the use of alternative measures of fiscal capacity. Therefore, the Study Group did not model a traditional DPE because it failed to address several policy objectives.

V. The "Funding our Future" Plan

The school funding model being recommended incorporates aspects of both the traditional foundation support program and the district power equalizing funding system. For example, it establishes a share ratio for each community based on its full market value per pupil, but also sets a minimum foundation amount of support as discussed below. This model is intended to achieve the following objectives:

- The State ensures that its school funding structure adequately reflects the different needs and associated costs of high-need students through its system of pupil weighting;
- The State ensures that its school funding structure adequately reflects the different needs of students, and limits the educational inequities among the State's school districts by establishing a fixed, targeted spending level of $10,000 per base pupil, and by endorsing a wealth-equalized State sharing ratio of 44 percent.
- The State education funding system provides a predictable amount and source of funding to ensure stability in the funding of schools; and
- The school funding system limits the portion of school budgets financed by property taxes, and establishes sufficient cost controls on school spending.

The following outlines the key components of the proposal. There are essentially seven elements to the Study Group's program:

- Student Count
- Student Need
- Per Pupil Wealth
- Foundation Spending
- State/Local Financing Structure; and
- Transition

Student Count: The method to count students for the purposes of our simulation work is based on an average daily membership count (i.e., a "registration" count) rather than a single day snapshot of enrollment or an average daily attendance measure.

Student Need There are students that may require additional resources, such as Special Education students - those with Individual Educational Plans (IEPs), children from families with limited economic means and those that may require additional language assistance. The education funding formula is designed to account for these additional needs. Students with special education needs would be weighted at 2.0, students receiving free and reduced lunch at 1.5, and limited English proficiency students at 1.2.

Table 4 displays what the impact of weighting students for need has on school districts. For example, Barrington's actual average daily membership enrollment in 2006 is 3,324 pupils. The weighting methodology increases the number by 17.1% to account for students with greater needs. Statewide, the weighting of student needs increases the enrollment by 35.4%.

Table 4
Impact of Weighting Students by Community

School District	Actual Enrollment: Enrollment ADM	SPED Students	Lunch	LEP	Weighted Enrollment: Enrollment 1.00	SPED 1.00	Lunch 0.50	LEP 0.20	Total Weighted Students	Impact of Weighting: Number	Percent
Barrington	3,324	522	86	9	3,324	522	43	2	3,891	567	117.1%
Bristol - Warren	3,522	515	895	110	3,522	515	448	22	4,507	985	128.0%
Burrillville	2,567	525	573	4	2,567	525	287	1	3,379	812	131.6%
Central Falls	3,971	853	2,801	839	3,971	853	1,401	168	6,392	2,421	161.0%
Chariho	3,761	541	468	11	3,761	541	234	2	4,538	777	120.7%
Coventry	5,592	1,030	764	13	5,592	1,030	382	3	7,007	1,415	125.3%
Cranston	10,744	1,978	2,456	403	10,744	1,978	1,228	81	14,031	3,287	130.6%
Cumberland	5,128	1,066	674	90	5,128	1,066	337	18	6,549	1,421	127.7%
East Greenwich	2,387	341	115	14	2,387	341	58	3	2,788	401	116.8%
East Providence	5,853	1,266	1,977	140	5,853	1,266	989	28	8,136	2,283	139.0%
Exeter - W. Greenwich	2,101	364	229	8	2,101	364	115	2	2,581	480	122.9%
Foster	289	39	43	0	289	39	22	0	350	61	120.9%
Foster - Glocester	1,669	67	166	0	1,669	67	83	0	1,819	150	109.0%
Glocester	671	119	98	0	671	119	49	0	839	168	125.0%
Jamestown	761	93	36	5	761	93	18	1	873	112	114.7%
Johnston	3,304	837	654	52	3,304	837	327	10	4,478	1,174	135.5%
Lincoln	3,276	544	437	23	3,276	544	219	5	4,043	767	123.4%
Little Compton	475	40	25	0	475	40	13	0	528	53	111.1%
Middletown	2,503	523	456	41	2,503	523	228	8	3,262	759	130.3%
Narragansett	1,593	263	160	10	1,593	263	80	2	1,938	345	121.7%
New Shoreham	132	18	11	5	132	18	6	1	157	25	118.6%
Newport	2,462	577	1,139	58	2,462	577	570	12	3,620	1,158	147.0%
North Kingstown	4,562	726	558	38	4,562	726	279	8	5,575	1,013	122.2%
North Providence	3,435	618	838	55	3,435	618	419	11	4,483	1,048	130.5%
North Smithfield	1,882	333	153	8	1,882	333	77	2	2,293	411	121.8%
Pawtucket	9,683	1,534	5,270	851	9,683	1,534	2,635	170	14,022	4,339	144.8%
Portsmouth	2,929	524	191	0	2,929	524	96	0	3,549	620	121.2%
Providence	26,716	4,698	18,887	3,915	26,716	4,698	9,444	783	41,641	14,925	155.9%
Scituate	1,764	247	124	0	1,764	247	62	0	2,073	309	117.5%
Smithfield	2,591	319	177	15	2,591	319	89	3	3,002	411	115.8%
South Kingstown	3,990	728	439	19	3,990	728	220	4	4,941	951	123.8%
Tiverton	2,064	376	292	0	2,064	376	146	0	2,586	522	125.3%
Warwick	11,386	2,121	2,595	52	11,386	2,121	1,298	10	14,815	3,429	130.1%
West Warwick	3,708	818	1,021	58	3,708	818	511	12	5,048	1,340	136.1%
Westerly	3,536	584	834	65	3,536	584	417	13	4,550	1,014	128.7%
Woonsocket	6,494	1,591	3,529	308	6,494	1,591	1,765	62	9,911	3,417	152.6%
State Total	**150,825**	**27,338**	**49,171**	**7,219**	**150,825**	**27,338**	**24,586**	**1,444**	**204,192**	**53,367**	**135.4%**

Source: RIPEC calculations based on RIDE enrollment data.

Key to the process of accounting for student need is accurate and audited student data. In addition, the formula must ensure there are not unintended "incentives" for over-

identification of student need. For example, one would not want to design a weighted student count that encouraged school districts to increase student counts in certain higher cost areas in order to receive additional resources. Therefore, as the process moves forward, adequate controls will need to be in place. Furthermore, per pupil special education costs that exceed a certain amount per pupil should be the responsibility of the State. For example, if special education costs are more than double than the State average of special education costs (e.g., $50,000) this amount should be the State's responsibility.

Foundation Spending: The proposal recommends that the State establish a base foundation amount per pupil that reflects what one expects is necessary for a student to have access to an adequate education. The Group agreed on a foundation amount of $10,000 per base pupil. This amount is based on an average spending for general education. Also, the consultants to the "Joint Committee to Establish a Permanent Education Foundation Aid Formula for Rhode Island" found that if the average base cost for the successful schools, advanced statistical, and professional judgment approaches were taken into account, one would arrive at a base cost of approximately $9,500 per base pupil. During the four-year transition period, the foundation amount would stay at $10,000 per pupil. After the transition period, this amount would need to be adjusted annually.

Structure of A School Funding Formula

A. District Aid = State Aid $s /Pupil X Total Weighted Pupils

B. State Aid$ per Pupil = State Sharing Ratio (%) X $10,000/pupil

C. District's State Sharing Ratio = $1 - (.56 \left[\frac{\text{District FV/Pupil}}{\$620{,}300 \text{ State FV/P}} \right])$

NOTE: For a district of exactly average property wealth ($620,300 FV/P), The State Share is 44% and the Local Share is 56%. In such a district, the State would award $4,400 per base pupil.

School Budgets: The table below shows the impact of the weighting on school districts. Statewide, the education budget would total $2.0 billion, assuming a foundation base per pupil amount of $10,000, which, when weighted for high-need pupils, represents $13,538 per pupil. The increase of $3,538 per pupil is due to the weighting of the high-need students with various needs. If the foundation per pupil amount were only applied to actual enrollment, statewide expenditures would amount to $1.5 billion. The additional $533.7 million are due to the weightings of student need.

Table 5
Estimated Budget Impact of Weighting Students

School District	Actual Enrollment ADM	Total Weighted Students	Impact of Weighting	Actual Enr. 10,000	Weighted Enr 10,000	Per Pupil Spending	Weighting Impact on Spending Total Cost	Per Pupil	Percent
Barrington	3,324	3,891	567	$33,240,000	$38,908,000	$11,705	$5,668,000	$1,705	17.1%
Bristol - Warren	3,522	4,507	985	35,220,000	45,065,000	12,795	9,845,000	2,795	28.0%
Burrillville	2,567	3,379	812	25,670,000	33,793,000	13,164	8,123,000	3,164	31.6%
Central Falls	3,971	6,392	2,421	39,710,000	63,923,000	16,097	24,213,000	6,097	61.0%
Chariho	3,761	4,538	777	37,610,000	45,382,000	12,066	7,772,000	2,066	20.7%
Coventry	5,592	7,007	1,415	55,920,000	70,066,000	12,530	14,146,000	2,530	25.3%
Cranston	10,744	14,031	3,287	107,440,000	140,306,000	13,059	32,866,000	3,059	30.6%
Cumberland	5,128	6,549	1,421	51,280,000	65,490,000	12,771	14,210,000	2,771	27.7%
East Greenwich	2,387	2,788	401	23,870,000	27,883,000	11,681	4,013,000	1,681	16.8%
East Providence	5,853	8,136	2,283	58,530,000	81,355,000	13,900	22,825,000	3,900	39.0%
Exeter - W. Greenwich	2,101	2,581	480	21,010,000	25,811,000	12,285	4,801,000	2,285	22.9%
Foster	289	350	61	2,890,000	3,495,000	12,093	605,000	2,093	20.9%
Foster - Glocester	1,669	1,819	150	16,690,000	18,190,000	10,899	1,500,000	899	9.0%
Glocester	671	839	168	6,710,000	8,390,000	12,504	1,680,000	2,504	25.0%
Jamestown	761	873	112	7,610,000	8,730,000	11,472	1,120,000	1,472	14.7%
Johnston	3,304	4,478	1,174	33,040,000	44,784,000	13,554	11,744,000	3,554	35.5%
Lincoln	3,276	4,043	767	32,760,000	40,431,000	12,342	7,671,000	2,342	23.4%
Little Compton	475	528	53	4,750,000	5,275,000	11,105	525,000	1,105	11.1%
Middletown	2,503	3,262	759	25,030,000	32,622,000	13,033	7,592,000	3,033	30.3%
Narragansett	1,593	1,938	345	15,930,000	19,380,000	12,166	3,450,000	2,166	21.7%
New Shoreham	132	157	25	1,320,000	1,565,000	11,856	245,000	1,856	18.6%
Newport	2,462	3,620	1,158	24,620,000	36,201,000	14,704	11,581,000	4,704	47.0%
North Kingstown	4,562	5,575	1,013	45,620,000	55,746,000	12,220	10,126,000	2,220	22.2%
North Providence	3,435	4,483	1,048	34,350,000	44,830,000	13,051	10,480,000	3,051	30.5%
North Smithfield	1,882	2,293	411	18,820,000	22,931,000	12,184	4,111,000	2,184	21.8%
Pawtucket	9,683	14,022	4,339	96,830,000	140,222,000	14,481	43,392,000	4,481	44.8%
Portsmouth	2,929	3,549	620	29,290,000	35,485,000	12,115	6,195,000	2,115	21.2%
Providence	26,716	41,641	14,925	267,160,000	416,405,000	15,586	149,245,000	5,586	55.9%
Scituate	1,764	2,073	309	17,640,000	20,730,000	11,752	3,090,000	1,752	17.5%
Smithfield	2,591	3,002	411	25,910,000	30,015,000	11,584	4,105,000	1,584	15.8%
South Kingstown	3,990	4,941	951	39,900,000	49,413,000	12,384	9,513,000	2,384	23.8%
Tiverton	2,064	2,586	522	20,640,000	25,860,000	12,529	5,220,000	2,529	25.3%
Warwick	11,386	14,815	3,429	113,860,000	148,149,000	13,012	34,289,000	3,012	30.1%
West Warwick	3,708	5,048	1,340	37,080,000	50,481,000	13,614	13,401,000	3,614	36.1%
Westerly	3,536	4,550	1,014	35,360,000	45,500,000	12,868	10,140,000	2,868	28.7%
Woonsocket	6,494	9,911	3,417	64,940,000	99,111,000	15,262	34,171,000	5,262	52.6%
State Total	**150,825**	**204,192**	**53,367**	**$1,508,250,000**	**$2,041,923,000**	**$13,538**	**$533,673,000**	**$3,538**	**35.4%**

Source: RIPEC calculations based on RIDE enrollment data.

As one can see on Table 5, the five communities in which the weighting exerts the most impact are all urban-core districts. They include Central Falls, Providence, Woonsocket, Newport and Pawtucket. For example, Providence's education budget would total $416.4 million, when applying a weighted student count. This would represent $15,586 per pupil. The increase of $5,586 per pupil is due to the weighting of the students with various needs. If the foundation per pupil amount were only applied to actual enrollment, Providence would receive $267.2 million. The additional $149.2 million is due to the compensatory weighting of student need, and the recognition that greater investment is required for pupils who are significantly disadvantaged if they are to achieve adequate educational outcomes.

Table 5 shows spending by district based solely on weighted student counts. However, to balance student equity needs with local property tax capacity and a district's wealth, adjustments are made. The adjustment recognizes that a number of policy goals compete when designing a school aid formula. If resources were not finite and other state laws did not exist, such adjustments might not be necessary.

Per Pupil Wealth: After determining student need weightings, the next step is to determine a district's fiscal capacity. To account for district wealth the Study Group used as a measure the per pupil full market value of a district in relation to the average statewide full market value per pupil. The per pupil average wealth ranged from a high full value wealth ratio of 5.69 (almost 6 times the state average wealth of $620,300 full value per pupil) in Little Compton (excluding New Shoreham) to a low of 0.16 per pupil ratio in Central Falls (see Table 6).

Table 6
Wealth Ratio and State Share

School District	Full Value Wealth in $s (1)	Full Value Per Weighted Pupil	FV PPupil Using WTD Average	State Share [1 - (56% X Dist. FV Ratio)]	State Share Adjusted for Caps at 85% And Floor at 25%
Barrington	$2,886,298,578	$741,827	1.19	33%	33%
Bristol - Warren	4,250,189,514	943,124	1.52	15%	25%
Burrillville	1,551,649,852	459,163	0.74	59%	59%
Central Falls	628,801,707	98,369	0.16	91%	85%
Chariho	4,507,445,091	993,223	1.60	10%	25%
Coventry	3,729,643,505	532,304	0.86	52%	52%
Cranston	7,578,691,889	540,155	0.87	51%	51%
Cumberland	4,233,901,623	646,496	1.04	42%	42%
East Greenwich	2,437,152,017	874,064	1.41	21%	25%
East Providence	4,178,312,286	513,590	0.83	54%	54%
Exeter - W. Greenwich	1,821,888,361	705,857	1.14	36%	36%
Foster	247,593,501	708,422	1.14	36%	36%
Foster - Glocester	1,135,977,770	624,507	1.01	44%	44%
Glocester	532,091,182	634,197	1.02	43%	43%
Jamestown	1,855,412,204	2,125,329	3.42	-92%	25%
Johnston	3,107,732,042	693,938	1.12	37%	37%
Lincoln	2,888,513,147	714,430	1.15	36%	36%
Little Compton	1,865,227,932	3,535,977	5.69	-219%	25%
Middletown	2,816,025,224	863,229	1.39	22%	25%
Narragansett	4,900,370,463	2,528,571	4.07	-128%	25%
New Shoreham	2,043,232,071	13,055,796	21.03	-1077%	25%
Newport	6,610,773,316	1,826,130	2.94	-65%	25%
North Kingstown	4,030,180,075	722,954	1.16	35%	35%
North Providence	3,165,224,914	706,051	1.14	36%	36%
North Smithfield	1,319,744,672	575,529	0.93	48%	48%
Pawtucket	4,822,196,589	343,897	0.55	69%	69%
Portsmouth	3,533,691,029	995,827	1.60	10%	25%
Providence	11,850,218,459	284,584	0.46	74%	74%
Scituate	1,957,271,182	944,173	1.52	15%	25%
Smithfield	2,608,379,529	869,025	1.40	22%	25%
South Kingstown	4,709,160,731	953,021	1.53	14%	25%
Tiverton	2,090,596,174	808,429	1.30	27%	27%
Warwick	10,633,702,112	717,771	1.16	35%	35%
West Warwick	2,410,283,727	477,464	0.77	57%	57%
Westerly	5,374,202,074	1,181,143	1.90	-7%	25%
Woonsocket	2,477,283,017	249,950	0.40	77%	77%
State Total	**$126,789,057,559**	**$620,930**	**1.00**	**44%**	**44%**

(1) Source: Office of Municipal Affairs, and Education Partnership and RIPEC calculations.

State/Local School Financing of the System: Once each school district's budget is determined as described above and per pupil wealth is established, the next step is to ensure that the state-local financial infrastructure is designed in a way that provides a predictable funding structure that engenders property tax relief.

VI. Summary and Impact of the Recommended School Aid Formula

The "Funding Our Future" suggested by the Study Group is a starting point of developing and implementing a permanent school aid formula which consist of the following salient provisions:

- It establishes a Foundation support amount of $10,000 per base pupil, the pupil count based upon average daily membership rather than a single day snapshot of enrollment or average daily attendance. While some states have employed average daily attendance measures as the primary aid driver (under the premise that this provides districts a major incentive to improve their attendance ratios), empirical findings clearly suggest that poor attendance is *not* a randomly distributed phenomenon – but is more highly concentrated in high minority, urban-core districts.
- It provides added student weighting for high-need pupils with special education students weighted at 2.0, students participating in the federally mandated Free and Reduced Price Lunch program at 1.5, and Limited English Proficient students at 1.2;
- Its wealth measure is a per pupil wealth determined by the full market value per weighted pupil in relationship to the statewide weighted average of $620,300 per weighted pupil; for a district of average state wealth (i.e., a property value per weighted pupil of $620,300), the *local sharing ratio* or local obligation was set at 56% - thus, the calculated state share for the average wealth district was set at 44 percent.

Structure of A Percentage Equalizing Formula: The State Share

$$\text{District's State Sharing Ratio} = 1 - \left(.56 \left[\frac{\text{District FV/Pupil}}{\$620{,}300 \text{ State FV/P}} \right]\right)$$

NOTE: For a district of exactly average property wealth ($620,300 FV/P), the Local Share of the $10,000 per pupil Foundation level was set at 56% – meaning the State sharing ratio would be 44% in an average wealth district. In such a district, the State would award $4,400 per base pupil.

- Calculation of the state sharing ratio for each school district community was calculated by multiplying *a wealth-adjusted local share* of 56% by each district's full value ratio and subtracting the resulting wealth-equalized local share from 1.0. By way of illustration, if a district's full value ratio was .8 (i.e., its property wealth per pupil was roughly $500,000 in property value per pupil (80 percent of the $620,300 statewide average full value wealth per pupil), the resulting wealth-equalized local share would be estimated to be .8 x .56 or 44.8 percent which, when

subtracted from 1.0, indicates that this lower-wealth district would enjoy a state sharing ratio appreciably greater than 44 percent, namely 55.2 percent.

> *Comment:* The Study Group believes that ideally the more appropriate local share would be 50 percent. Ultimately, this should be the goal of a permanent school aid formula.

- The Study Group recommends that the formula's minimum state aid be set equal to 25 percent of the per pupil foundation amount, the State aid ratio be capped at 85 percent after taking the district's full value wealth ratio into consideration.
- Minimum local contribution would equal the amount each community's property levy uses to support schools. In view of the fairly substantial increases in State Aid per pupil involved, we also recommend a multi-year transition period in which the local share (school property tax levy) would increase by 2% annually, and the growth in any district's state aid increase per pupil would be limited to 15 percent over the transition period.
- As noted earlier for those districts whose calculated aid ratio under this new formula would dictate aid losses (in comparison to the current state aid funding levels), we provide for a hold harmless provision guarantee 3% growth.

VII. Additional Policy Concerns

In considering a reform of the system for financial public education in Rhode Island, two additional issues need to be considered – linking increased state spending to improve school efficiency and effectiveness, and development of a transition schedule to fully implement the proposed school aid formula.

The Group recognizes that enactment of a predictable school aid formula will engender discussion about school effectiveness, efficiency, equity and accountability. Various school reform bills, such as statewide purchasing for schools, a legislative commission on regionalizing schools on Aquidneck Island and a statewide health plan are currently being considered by state and local officials. Serious examination of these plans should be an important order of business.

Therefore, it is incumbent for the Rhode Island Department of Education and the Board of Regents to work with all stakeholders and play a leadership role in encouraging greater efficiency in allocating finite resources available to Rhode Island's 36 school districts.

Fiscal accountability is a critical component of any school funding system. This should include uniform fiscal reporting and auditing practices. Developing, monitoring and maintaining an effective budgeting system is critical to the issue of accountability. Because of the significant investments made in education, tracking expenditures is a major component to ensure accountability. For example, effective tracking allows taxpayers and policy-makers to monitor progress in improving equity and identify potential areas to improve efficiency. Improving school efficiency and effectiveness starts with having good information that the public can understand.

In addition to fiscal accountability, there is a need to monitor school and district performance. Monitoring the performance of the school system requires accurate, easily understood and timely information that is measurable and links investments with student outcomes. In both of these areas the State is making progress. However, to enhance efficiency and build support for the "Funding Our Future" Plan, inter-district cost-sharing in areas such as transportation, administration, special education, purchasing, and curriculum development should be considered.

Transition: A difficult element of developing a new school financing structure is moving from the existing system of funding schools to the new method of funding. Rhode Island is not starting from scratch – the history and culture of the current system are often overwhelming, and the system's financing intricacies and relationships, particularly as they affect local budgets, must be considered. Therefore, there is a need to develop and follow a multi-year transition program for all cities and towns and the state. The formula needs to be phased in to allow districts and municipalities, as well as the State to adjust to potential fiscal impacts. In particular, for districts whose wealth equalized state aid share clearly points to substantial current under-funding, the transition must be handled so as to avoid a greater single year investment per pupil during the transition period than the district is equipped to handle.