



**RIPEC**

# Comments on Your Government

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## Analysis of Proposed Funding Formulas

### Introduction

Education has broad benefits; however, it also represents the most significant financial investment made by states and communities across the country. As such, the question of how to provide a quality education system, something that is widely recognized as paramount to ensure economic development, at an affordable price to taxpayers, has grown increasingly important.

Recently, Rhode Island was selected as one of 16 finalists in the first round of the “Race to the Top” grant application and was 8<sup>th</sup> overall – a signal that changes made by the Rhode Island Department of Education have been recognized at the national level as positive steps in the right direction. However, the State risks falling short of receiving the funds in the second round as well unless it makes a number of key changes, among them the development and implementation of a funding formula.

Rhode Island has not had a funding formula in place since the late 1990s and currently is the only state in the country without one. Over the past few years, various stakeholders have worked together to develop a formula that accurately accounts for district needs, and State and municipal capacity, while ensuring that the most at-risk students receive the resources they need to succeed. During this legislative session, three funding formulas have been put forward and there appears to be collective will to establish, for the first time in over a decade, a funding formula for the State.

This *RIPEC Comments* provides an overview of the current state of education funding in the State. This *Comments* also outlines a set of basic guiding principles that RIPEC believes should be taken into account when considering the merits of a funding formula and provides an explanation of each of the three bills currently under consideration.

### Current State of Funding in Rhode Island

In 2006-07, the most recent year for which nationally comparable data are available, public education in Rhode Island was primarily supported by local governments. Revenues generated at the local level accounted for 51.6 percent of total education revenues, the 12<sup>th</sup> highest level of local support in the country. Conversely, State funding accounted for 40.3 percent of all Rhode Island education revenues, ranking the State 40<sup>th</sup> highest in the country for State support of education.

**Table 1**  
**Source of Total Public School Revenue 2006-07**

	Local		State		Federal	
	Percent	Rank	Percent	Rank	Percent	Rank
U.S. Average*	43.9%	-	47.6%	-	8.5%	-
Connecticut	56.6%	6	38.8%	41	4.6%	49
Maine	45.6%	24	45.2%	28	9.1%	23
Massachusetts	47.8%	19	46.8%	26	5.4%	48
New Hampshire	57.0%	5	37.5%	43	5.5%	47
<b>Rhode Island</b>	<b>51.6%</b>	<b>12</b>	<b>40.3%</b>	<b>40</b>	<b>8.1%</b>	<b>30</b>
Vermont	7.3%	49	85.9%	2	6.7%	41

\*US average includes District of Columbia

Source: National Center for Education Statistics, Common Core Data Set; RIPEC calculations

In general, New England relies more on local sources to fund education than does the rest of the country. With the exception of Vermont, all New England states had higher local support and lower state support than the national average. Within the region, Connecticut and New Hampshire continue to rely more on local sources for education revenues than does Rhode Island, and both received slightly less state support than Rhode Island. New England also tends to receive less in Federal support than does the rest of the country.

More recent, Rhode Island data indicates that local sources accounted for 58.1 percent of all education revenues statewide in 2008, while State support accounted for 34.9 percent of total Rhode Island education revenues. However, the extent to which communities rely on local, state and federal sources varies across the State and is related to district need and capacity. The urban core districts, in general, have a higher level of State support than local support, while the reverse is true across the rest of the State.

**Table 2**  
**FY 2008 Revenues by Source of Funding**

Districts	Percent of Total		
	Local	State**	Federal
Urban Core	29.8%	58.3%	11.9%
Urban Ring	66.0%	28.3%	5.6%
Suburban	76.5%	18.9%	4.6%
Emerging Suburban	70.0%	26.4%	3.7%
<b>Statewide</b>	<b>58.1%</b>	<b>34.9%</b>	<b>7.0%</b>

\*\*Includes direct State aid and is exclusive of set-aside funds, including direct charter school aid, the State contribution to teacher retirement, and construction aid. Totals are exclusive of food service  
SOURCE: R.I. Department of Education; RIPEC calculations

**Summary of Bills**

This legislative session, a number of bills have been put forward that would establish, for the first time since the late 1990s, a funding formula for the State of Rhode Island: HB 7555,

sponsored by Representatives Ajello, Savage, Melo, Palumbo, and Baldelli-Hunt; SB 2770, sponsored by Senators Gallo, Paiva-Weed, Ruggiero, DiPalma, and Felag, and HB 7123, sponsored by Representatives Corvese, Malik, Palumbo, and Brien; and HB 8094, sponsored by Representatives Costantino, Hearn, Mattiello, Coderre, and Giannini. One should note that a Sub A version of SB 2770 has been put forward for study. The Sub A modifies the formula proposed in the original bill to more closely resemble the formula contained in HB 8094. However, the bill modifies the effective date, alters some governance issues and requires RIDE to issue an annual report on the formula.

**Funding Formula Overview**

Any effective and meaningful reform to the current system of school funding should be grounded in a set of clear goals that are linked to both student achievement and issues of accountability and equity. As such, any new formula should define and account for a foundation amount, student count, student need, district fiscal capacity, and a transition period.

*Foundation Spending* – There should be a threshold level of support for all communities using a per pupil cost that focuses on core educational costs. The core education costs include expenditures directly associated with instruction, instructional support, and leadership (e.g., principals, central office staff, and superintendents). Other expenditures that do not directly impact education, such as transportation and food service, should be excluded as should capital and debt costs, and federally-funded programs. These costs should be developed through common data that compares like costs, and evaluated to ensure that they are clearly linked to the actual cost of delivering an effective K-12 education system as established by the State’s Basic Education Plan (BEP).

Each formula uses a similar process of identifying a group of expenses that constitute a

core foundation amount per pupil. House Bills 8094 and 7123 (SB 2770) use a similar core group of expenses that meet the BEP and other related costs, but they rely on different sources of data. While HB 8094 bases the foundation amount on a regional average as reported by the National Center for Education, SB 2770/HB 7123 uses core instructional costs as determined through In\$ite data. By contrast, HB 7555 uses a yet-to-be-determined annual group of costs as approved by the Department, the Governor and the General Assembly. All three include an annual inflation factor except HB 7555 in which increases are subject to the economic conditions of the State and approval by the General Assembly.

Student Count – The pupil count should be based on average daily membership (ADM) 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.

All three bills use ADM to calculate student enrollment. One should note, however, that none of the bills take into account the effect that changing enrollments may have on a district (although SB 2007/HB 7123 does include a hold harmless provision). One possible solution may be to project enrollments and institute some form of smoothing for enrollment changes to guard against significant shifts in population that may not result in local cost reductions or increases.

Student Need – Any formula should take into account the additional costs associated with student need by

distributing funds using a weighting methodology. Available data indicates that there is a high correlation between poverty and special needs, English language learner, and vocational education populations. While the specific weight may vary, free/reduced lunch has been used in a number of states as a proxy for student need. In addition, extraordinary costs, such as high-cost special education, or programmatic supports such as career and technical education, should be taken into account.

All three bills measure the needs of students based on specific demographic characteristics. Although the calculation of a specific “student need allocation” varies between the three bills, all accept the principle that students with higher needs (such as special education, English language learners, or students in poverty), are, in general, higher-cost students to educate.

Two of the formulas (HB 8094 and SB 2770/HB 7123) use free/reduced lunch students as the single measure for needs and additional costs, based on the belief that free/reduced lunch students are the best identifier of student need. RIPEC has also noted that the category of free/reduced lunch was most representative of student need and is a readily available measurable category. The other formula (HB 7555) uses free/reduced lunch students but adds additional weights for special education, English language learners and career and technical

**Table 3**  
**Enrollment and Funding as a Share of Statewide Totals**

LEAs	Enrollment		Funding			
	PK-12 RADM % of Tot.	FRPL RADM % of Tot.	FY 2010 Enact % of Tot.	HB 8094 % of Tot.	HB 7555 % of Tot.	HB 7123 % of Tot.
Urban	30.7%	60.8%	53.6%	56.2%	52.7%	45.4%
Urban Ring	23.9%	18.7%	19.2%	20.2%	22.0%	22.5%
Suburban	27.2%	12.3%	14.0%	13.0%	13.3%	18.3%
Emerging Suburban	18.2%	8.2%	13.1%	10.5%	11.9%	13.8%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

SOURCE: Rhode Island Department of Education

students. A student who fits every category could be weighted as much as 2.45.

Both HB 8094 and SB 2007/HB 7123 account for additional costs relating to special education by funding those costs through a direct payment by the State for each high-cost special education student. In addition, HB 8094 provides additional funding for early childhood education and for the start-up/maintenance of high-cost career and technical programs. House Bill 7555 includes a provision for additional State funding of extraordinary special education costs, as well as out-of district transportation, group homes and non-public textbooks.

District Fiscal Capacity – After determining student need, the next step is to determine a district’s fiscal capacity. Relying solely on property values may not provide an accurate picture of the community’s ability to pay, while relying on median family income may mask individual poverty that can be overshadowed by high income areas of the community. One way to account for these problems is to adjust property values by median incomes and to take into account free/reduced lunch enrollment when determining the appropriate State/local share ratio.

All three systems attempt to measure both the property wealth of the community and the wealth of the individuals living within the community; however, each formula weights the value of property differently as well as the wealth of the individuals within the community.

House Bill 7555 calculates the State share ratio using a 50/50 split between the State and local government, taking into account the municipal ability to pay by adjusting for the equalized weighted assessed valuation (EWAV) for the community. This share is then applied to the foundation amount (which is determined by RIDE for the entire State and would be the required foundation amount that the State and local governments would share).

Senate bill 2770/HB 7123 establishes a state share formula by using a 50/50 state local split adjusted by full property values and median family income (each weighted at 50 percent). This share is then applied to the foundation amount. In this formula, the full value of property is used as opposed to the EWAV as in the current system, and the other two bills. The median family income of the community is a separate portion of the formula and has an equal weight as the full property value.

#### Definitions

- *MFI (Median Family Income)*: the value which divides income distribution into two equal groups, half with income above and half with income below, the amount. The Census defines family as households with two or more persons related by blood, marriage or adoption.
- *EWAV (Equalized Weighted Adjusted Valuation)*: calculated by the Division of Municipal Finance, EWAV considers the total assessed valuation of real and tangible property as of December 31, adjusted for true market value. This value is then adjusted by the ratio of the community’s MFI to the statewide MFI as reported in the most recent data from the Federal Census.
- *RADM (Resident Average Daily Membership)*: the current base for student aid programs, RADM counts students based on their district of residence and gives credit for any time the student is an enrolled member of the district, present or absent.
- *FRPL (Free/Reduced Price Lunch)*: a federally assisted program that provides free or reduced lunches to school children at or below 185 percent of the federal poverty line. This program is a commonly used proxy for poverty.

House Bill 8094 determines the state share ratio by using a quadratic mean formula, which gives greater weight to *either* EWAV *or* the share of free/reduced lunch students in grades pre-kindergarten to 6<sup>th</sup>. The formula in HB 8094 sums the squares of the value of EWAV and the percent of PK-6 free/reduced lunch enrollment. The results of this calculation are divided by two. Effectively, this formula places greater weight on the relative poverty of a community as measured either by adjusted property wealth or the share of students living in poverty.

Transition – There is a need to develop and follow a multi-year transition program for all cities and towns and the State. Any formula needs to be phased in to allow districts and municipalities, as well as the State, to adjust to potential fiscal impacts. Within this, a “hold harmless” provision should be considered, either permanently or for a minimum period, to allow for a smoother transition. If money is to follow the child, there may be an increased level of volatility that would violate the principle of predictability. This may have particularly negative unintended consequences for districts that are most in need as those are the communities that have seen the largest reductions in enrollment over the past few years.

In both HB 8094 and HB 7555, some communities will experience a decrease in State funding and include the provision that money will follow the child, and that State funding will be reduced accordingly over a period of time. In SB 2770/HB 7123 the transition is completed over a three year period. House Bill 8094 reduces “over-funded” communities over a ten year system and phases in increased funding over a five year period to fund those communities that are “under-funded”.

Only SB 2770/HB 7123 has a provision that holds communities harmless at a minimum funding level over time increasing funding to those who are currently “under-funded” based on the formula without decreasing funding to any district. This hold harmless provision establishes a minimum share ratio for the State at 25.0 percent and does not reduce funding levels in the case of declines in enrollment.

Accountability and Cost Control – Additional policy concerns around fiscal accountability and school district efficiency also should be addressed. In creating a formula, RIDE should fully actualize the Uniform Chart of Accounts in order to provide a meaningful system that allows districts to cross analyze expenditure data with student assessment results. Further, there should

be additional steps taken with regard to cost control, such as the legislation facilitating a statewide transportation system and greater group purchasing between and among districts, both in and out of State, so as to maximize district purchasing power and realize greater economies of scale.

Each of the formulas considers and uses similar language relating to accountability; however, further refinement is necessary to create a single set of accountability standards and measurements. House Bill 8094 has created the most comprehensive list of standards and is the only one to directly relate the State share amount to the basic education plan, while SB 2770/HB 7123 is the only one to require participation in the statewide purchasing plan.

#### **RIPEC Summary**

The source of education funding is an integral component of the on-going debate about public education in the United States. Central to the debate are questions of “equity” and “adequacy”, and what those terms mean with regard to the provision of education. States around the country are working to define systems of education finance that address local funding disparities and incorporate the notion of adequacy.

Rhode Island has not had a predictable school aid formula since the mid 1990s and is the only state in the country without a formula. Up until FY 1996, the State used a statutory formula to distribute education aid. After FY 1996, aid was determined on a year-by-year basis, with additional aid targeted to districts with a high tax effort and low tax capacity, and those with a high number of disadvantaged students. Since FY 2007, State education aid has been frozen (with minor adjustments) due to Rhode Island’s current fiscal strain.

For over a decade, policymakers have worked to develop and enact an education funding formula

that ensures school students, school districts and taxpayers, adequacy, predictability and fairness. Over the past few years, RIPEC has worked with the Funding our Future Coalition to bring about a funding formula. As a part of the Coalition, RIPEC helped outline a set of principles upon which a funding formula should be based (see inset). In the 2009 legislative session, RIPEC and Funding our Future supported a bill sponsored by Senator Gallo as it best aligned with the Coalition’s principles.

<p><b>Basic Principles of a Funding Formula</b></p> <ul style="list-style-type: none"> <li>• The State should ensure that its school funding structure adequately reflects the educational cost differences of different “high-need” students, and closes the education inequities among the State’s school districts;</li> <li>• The State education funding system must provide a predictable amount and source of funding to ensure stability in the funding of schools;</li> <li>• The State recognizes that districts of limited fiscal capacity must receive greater State aid than their higher wealth counterparts (a classic wealth equalization model inherent in the majority of school funding formulas);</li> <li>• The school funding system ought to treat property taxpayers equitably, limit the portion of school budgets financed by property taxes, and establish sufficient cost controls on school spending; and</li> <li>• A school funding formula should promote school efficiency, effectiveness and accountability.</li> </ul>
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Rhode Island is moving in the right direction to improve public schools by laying out performance standards and goals, working to improve data systems, and continuing to intervene in low-performing schools; however, the success of these efforts requires an effective and reliable method of funding schools. While there are strengths and weaknesses in each bill, and while it is important that perfect not be the enemy of the good, RIPEC believes that, in addition to adhering to the principles outlined above, the following be taken into consideration when evaluating the bills:

- What is the effect of including or excluding a “hold harmless” provision? While the principle that “the money follows the child” recognizes the need for adjustments based on

demographic shifts, this aspect of a funding plan may introduce a high level of volatility that would violate the principle of predictability. In addition, without changes to issues around local control, mandates and other ways to help school districts control spending, the lack of a hold harmless provision may lead to increased local taxes or reduction of services. The potential for additional state funding is likely years away and to further shift funds from communities now would have a negative effect on education.

- Is EWAV the most effective adjuster for municipal capacity? RIPEC recognizes that solely relying on property values to determine municipal fiscal capacity may not provide an accurate picture of a community’s ability to pay. However, because the EWAV reference year is three years behind the funding year, and the median family income adjuster is based on 2000 data, there may be a need to adjust for fiscal capacity using a more up-to-date measure.
- What is the anticipated effect of the change in funding for charter and vocational schools on local districts, given the increased local responsibility for funding these institutions? Given that a number of charter schools draw heavily for those districts most in need, would the increased local responsibility have a potentially negative effect on those districts’ ability to fund education?

RIPEC believes that the time is right to reestablish a funding formula in the State. However, given the above concerns, delaying the implementation of the formula itself may provide the State with an opportunity to better examine the impact changes in enrollment may have on district funding, as well as an opportunity to further refine the formula. In addition, a delayed implementation date would allow districts to plan for the shifts in resources and adjust expenditures accordingly.