

REPORT OF THE FOUNDATION AID TECHNICAL ADVISORY GROUP

TO THE

**JOINT COMMITTEE TO ESTABLISH A PERMANENT FOUNDATION AID
FORMULA FOR RHODE ISLAND**

May 15, 2007

BACKGROUND

The Rhode Island General Assembly took action during the 2006 legislative session to begin work on the development of a bold new system to fund public education. The first step was the creation of the Joint Committee to Establish a Permanent Foundation Aid Formula for Rhode Island (chaired by Senator Hanna Gallo and Representative Edith Ajello). After a lengthy national search, the Joint Committee chose the firm of R.C. Wood & Associates to perform an “adequacy study” in order to move to a student need driven model of distributing state resources to school districts. Wood & Associates used four different research methodologies to determine a research-based funding level for an “adequate” education that includes weights for poverty, English language acquisition, and special needs. Depending on the specific methodology relied upon, the R.C. Wood Report recommends a base funding level ranging from the lower \$9,000’s to the mid \$10,000 range, coupled with weights of 25% for free and reduced lunch eligibility, 25% for English Language Learners, and 100% for special education students.

Even before Wood & Associates released their study, a second group formed to define its own funding formula model for consideration and possible adoption by state leaders. This ad hoc consortium, consisting of the Rhode Island Public Expenditure Council, the Rhode Island Association of School Committees, the Rhode Island Federation of Teachers and Health Professionals, the National Education Association of Rhode Island, The Education Partnership, and the Rhode Island School Superintendents’ Association, was able to build a historic consensus around a formula design. As published in a report entitled, *Funding Our Future: A Proposal to Fund Education in Rhode Island*, the ad hoc group addressed both the question of student need and a system of predictability and fairness for Rhode Island taxpayers. By speaking to the difficult questions of funding an adequate system, the ad hoc group went far beyond the efforts of R.C. Wood & Associates. *Funding Our Future* contains descriptions of a weight-based Foundation Support Program and what it calls a system of “District Power Equalizing” model that addresses ways in which state funding can be more adequately and equitably distributed. In other words, both reports deal directly with the issue of student need-based vertical equity, but only the ad hoc group addresses the question of wealth equalization and horizontal equity of distribution of state resources across school districts. The ad hoc group did not address the entire structure of financing for Rhode Island’s educational enterprise, instead focusing primarily on the “Foundation” aspect of the system.

The Joint Committee received *Funding Our Future* with appreciation. It then created two multi-constituent Technical Advisory Groups – one to address Tax Policy and one to address Foundation Aid. The Department of Elementary and Secondary Education (RIDE) offered its resources and technical assistance to the Foundation Aid Technical Advisory Group and has played an essential role

in the data analysis necessary to support the work of this Technical Advisory Group.

OVERVIEW

The Foundation Aid Technical Advisory Group has found the reports written by R.C. Wood & Associates and the ad hoc committee to be valuable documents that formed the basis for the advisory group's work. This report builds upon the expertise and thoughtful deliberations that went into both previous reports in order to present recommendations that will enable Rhode Island to establish a foundation aid formula that will support education in Rhode Island into the future.

Driving Principles

The Foundation Aid Technical Advisory Group agrees that Rhode Island needs a funding formula for education that is permanent and predictable and that results in an increased state share of funding for education over a period of years. Education is of primary importance for Rhode Island's economic competitiveness. Rhode Island has an urgent obligation to ensure that education funding is distributed in a responsible and consistently predictable manner. Lean state budgets, pressures from limits to local funding, and the need to keep data analysis fresh are all factors that point to the need for immediate action.

Five major principles serve as the basis for the group's recommendations.

- (1) **Equity:** Any funding formula must balance two competing equity interests. The state education funding system must provide horizontal equity between districts in regards to state funding shares. In addition, it must recognize that some students pose a greater educational challenge than others and therefore must provide vertical equity among students, ensuring that there is sufficient funding for all students to receive a quality education.
- (2) **Adequacy:** Recognizing that all students should receive the funding needed to achieve proficiency in the skills and knowledge necessary to be productive in an increasingly competitive economy, adequacy refers to the importance of ensuring that education funding is based on student need, and the inclusion of some measure of the differential expense of educating certain sub-groups of students, i.e. student "weights."
- (3) **Predictability:** Local school districts must be able to plan for predictable levels of state assistance during the local budget process, which occurs months before state aid numbers are finalized for the ensuing fiscal year.
- (4) **Accountability:** No discussion of funding can take place in the absence of a discussion about anchoring funding streams in a strong accountability framework with resources to implement accountability provisions.

- (5) **Efficiency:** Containing costs in the name of increased efficiency requires more overt linking of control and expenses. Local districts cannot achieve cost efficiencies without the means of controlling those costs.

Essential Elements of a Successful Formula

The Technical Advisory Group has reached agreements on a number of important elements for the Rhode Island education funding formula, particularly:

- The need for weights for high-need student groups,
- The use of average daily membership for the pupil count,
- The maintenance of current statutory provisions dictating the state and local shares for funding teacher retirement costs, with the potential to implement alternative funding options in the future,
- The fact that federal monies are kept outside of the state/local funding formula due to their supplemental nature, and
- The four primary categories of expenditures that must be accounted for in an overall state/local funding strategy: first, the foundation formula, which sets parameters for local/state cost sharing for the vast majority of expenses; second, costs for which there are potential efficiencies only at the state level; third, expenses that are state program responsibilities, but which are not included in the foundation itself; and, finally, costs controlled at the local level which could be treated as purely local responsibilities.

The removal of certain expenditure and funding categories from the formula calculations is discussed in more detail in later sections of this report. However, one excluded category of particular note is federal funding, which the group recommends for removal from the formula and budget calculations in order to maintain the integrity of the supplemental role for which it is intended.

As a matter of principle, Rhode Island must have a funding formula that provides a share of state funding for every community in the state. The ad hoc committee proposed a 25% foundation amount minimum share in the *Funding Our Future* report, however due to changes that the Technical Advisory Group has recommended for the proposed funding formula, the actual guaranteed minimum state share will depend on final funding formula numbers. In addition, the group recommends that there be a “hold harmless” provision so that no school district will receive less state funding than current amounts due to the implementation of a new funding formula.

The advisory group also agrees that Rhode Island should not implement a “Robin Hood” funding mechanism. A “Robin Hood” funding formula takes local tax revenue from high-income districts to fund the education systems in low-income districts within the state. Vermont’s education funding system is a good example of this. Finally, the advisory group recognizes that traditional property-based wealth measures for determining the state’s sharing ratio are not the only

measures of district fiscal capacity and that the final formula may use alternative measures of financial capacity such as median income or a combination of measures.

Successful education funding must be done with transparency, must be data-driven, and must have the flexibility to allow for mid-course corrections as the nuances of the funding formula begin to play out in the real world. Several factors will allow the new funding formula to accomplish these goals. First, the General Assembly has directed the Rhode Island Department of Elementary and Secondary Education (RIDE) to create a uniform chart of accounts that will be used to track education expenditures by every district in the state. Second, the Technical Advisory Group recommends that part (one half of one percent) of annual foundation aid funding be allocated to RIDE for implementing an accountability framework linked directly with resource allocation. Finally, a realistic funding formula implementation plan must be created that includes allowances for mid-course corrections and that is based on the numbers that arise from the final funding formula decisions.

FOUNDATION-BASED FUNDING

As policy makers work to define an adequate level of foundational support, it is imperative that they consider all current expenses. In FY 2006, approximately \$1.9 billion was spent on public education in Rhode Island when state, federal and local revenues are combined. To build a comprehensive funding strategy, we must reach consensus on the resultant picture of funding that would derive from several years of cost-shifting on a formulaic basis. Therefore, the advisory group proposes to capture and sort all expenditures into four logical categories.

Foundation Formula

A foundation formula, which represents a recalibration of how municipalities and the state share core expenses, would be the largest category. In order to be effective, the foundational amount must be based on an accurate per pupil cost calculation.

State Efficiencies

The second category of expenses includes those that logically should be borne by the state based on criteria of efficiency and accountability. Expenses that are controlled at the state level include out-of-district student transportation and services to non-public schools. Linking control and expenditures more overtly will inevitably lead to greater cost efficiencies. State funding of these new aid categories becomes a direct source of local property tax relief. Thus, the cost shifting from local/state sharing to full state funding becomes an extremely effective tool in achieving horizontal equity. Such shifts in funding would, by

definition, occur on a per capita basis, which would favor suburban districts that currently enjoy a lower state share of expenses. An example of this type of funding would be extraordinary costs associated with a small percentage of special needs students.

State Program

A third category would be specific program expenses over which the state either desires to exert accountability oversight or avoid unpredictable cost increases. Examples of this could include progressive support and intervention, group homes, and housing aid. The range of expenses in this category could also be expanded or revised over time to support other state priorities. The advisory group recommends at this time that 0.5% of foundation funds be set aside into a restricted fund for the purposes of assuring overall system accountability. Just as capital investments should devote a small percentage of total budget for maintenance, so should our education devote a small amount, in order to fund the oversight and accountability demanded by taxpayers and legislators alike.

Local Program

A very small fourth category would consist of those costs over which the local school district has much greater control than does the state. Post-retirement health care costs would meet this test. Again, this would put the responsibility for revenues as close to the control over expenditures as possible.

Table 1 represents a preliminary recommendation for applying these expenditure category criteria to representative current expenditures.

Table 1. Expenditure Categories

Foundation Formula	State Efficiencies	State Program	Local Program
General Education	Out-of-District Transportation	Progressive Support & Intervention	Retiree Benefits
Student Weights for SPED, ELL, CTE & Poverty	Extraordinary Cost Special Education	Professional Development	
In-District Transportation		Accountability	
		Group Homes	

Keeping in mind that this table represents a goal to be achieved over time, one can view the many options of shifting funding over a period of years as an additional tool for achieving horizontal equity.

WEIGHTING

The Foundation Aid Technical Advisory Group has reviewed research reports that outline the systems of student weighting used in other states (including R.C. Wood and *Fund the Child*). It is clear that the systems in place in other jurisdictions are one part art, one part science, and one part the economics of available funds. Weighting students by need is the primary mechanism of achieving vertical pupil equity, (i.e., the assurance that resources are directed in larger proportion to needier students). Both R.C. Wood & Associates and the *Funding Our Future* coalition agree on the need for weights, and both focus on the three primary weights of students in poverty, English Language Learners, and students receiving special education services. The recommendations on weights in both the R.C. Wood and *Funding Our Future* reports do not differ significantly. However, there may be additional variables to consider in the creation of reasonably accurate and educationally responsive weights based on student need.

Poverty

We know that density of population and density of poverty are highly predictive of student achievement. Therefore, the advisory group believes that a poverty weighting based on “free and reduced lunch eligible” criteria is not a specific enough measure to capture density of poverty. By assigning a greater weight to free lunch eligible than to reduced lunch eligible, we can achieve a reasonable proxy for poverty density. Instead of using a 1.5 weight for free and reduced, RIDE proposes a weight of 1.75 for free lunch eligible and 1.25 for reduced lunch eligible.

Special Education

To the extent that our weights are driven by program costs to the greatest degree possible, special education weighting should reflect the actual costs of educating those students with IEPs whose costs are not partially borne by the state through a method of state share for extraordinary program costs. In other words, the special education weighting, once adjusted for state share outside of the foundation formula, can be driven by actual costs rather than a logical guess. While this analysis will take more time, it is clear that a 2.0 multiplier for “non-extraordinary cost” IEP students within the foundation formula is adequate. While RIDE will need additional time to derive truly accurate weights based on Rhode Island specific program cost data and multiple programmatic levels, it appears from our preliminary analysis that a weight of 2.0 may be sufficient as a weight for program purposes when any costs of educating very high-need children that exceed \$50,000 per year are covered by direct state investment.

English Language Learners

Weighting for English Language Learners (ELL) is especially problematic. Program costs vary widely and the research suggests that multiple levels of programming are typically required as a student acquires English and is increasingly mainstreamed with supports. Given that ELL students require specialized programming, at least for some period of time, a 1.2 multiplier is probably too low. However, discrete program costs for ELL students are not currently available, and review of the relevant research and weights used in other states suggests that a 1.2 multiplier is a good starting point for further analysis.

Career and Technical Education

The advisory group also recommends weighting for Career and Technical Education (CTE) with a multiplier of 1.25%, to reflect the state's current spending protocols. However, further analysis is needed to differentiate between part-time and full-time CTE student participation, as well as changing state shares for state-run academies such as Davies. Table 2 summarizes the recommendations on specific student categorical weights.

Table 2. Student Need Weighting Ratios

Special Education	2.0
Free Lunch	1.75
Reduced Lunch	1.25
Career & Technical Education	1.25
LEP	1.20

Regardless of the actual weights adopted by the General Assembly, it will be essential that the weights be “stacked” or aggregated. In other words, one student may be poor, be on an IEP and be an English language learner. Every applicable weight would be additively attributed to create the multiplier for that child.

PROGRAM AND PILOT FUNDING

This comprehensive funding strategy leads to a series of important policy considerations on program specific funding. For example, career and technical programs, full-day kindergarten, pre-K programs, and after-school programs may be better served if discretely funded outside the foundation formula. As opposed to sharing in a weight-driven formula, programmatic funding is not as dependent upon accurate data systems, nor is it subject to the complexity and constant recalibration weighted systems require.

Additionally, there needs to be dedicated funds to address the creation of innovative pilot programs and model practices that increase student achievement

and help to close the achievement gap between low income and higher income students. Once proven effective, these programs could become eligible for the more expansive funding needed to bring them to scale. This is a crucial element of accountability – paying for what has already proved effective. Funding specific programs and initiatives outside a base foundation level creates opportunities for more meaningful oversight and accountability of those programs that are specifically aimed at meeting the needs of our high-need students.

It is possible that at a future date one or more of these programs should be considered as a new student weight and therefore included in the foundation formula. Several states have incorporated pre-K and after-school programs into their funding formulas. The advisory group recommends that the student weights recommended in this report in Table 2 be periodically reassessed to determine if the existing weights are working as intended, and to consider whether additional weights should be added.

GOING FORWARD

The advisory group is pleased to present this report of policy recommendations for foundation-based school funding to the Joint Committee. This report reflects the work that this group has accomplished during the five week period from April 13, 2007, the date of the first meeting, through May 15, 2007. We now stand ready to assist the Joint Committee as it continues its legislative deliberations. The advisory group is prepared to offer a more detailed budget analysis of this proposal to enable comparisons of expenditures in this funding model with current practice on a statewide basis and for each local district. We are also prepared to assist with the development of enabling legislation in support of these policy principals for consideration during this legislative session.

The advisory group recognizes that the concept of a core general education foundational amount as a shared state/local responsibility based on a share ratio that is an expression of community wealth is the key to making this new funding strategy work. This advisory group was not charged to specifically address this issue. However, we are willing to integrate our work on the foundation formula with efforts on the state/local share issues in whatever capacity would be most useful to the Joint Committee. We are also willing to continue our work in creating supporting documentation for ensuing legislative action.

The advisory group also recognizes the enormous complexity of education financing. It is highly unlikely that even with the best intentions, talent and information, legislation passed at one moment in time will continue to address all the needs of this dynamic system. Therefore, we recommend that the legislation include plans for systematic reviews to be conducted at specific intervals to assure that it continues to satisfy the driving principals of equity, adequacy and

accountability. This review should include both legislative, administrative and community leadership. The members of the advisory group would be honored to participate in any ongoing review process.