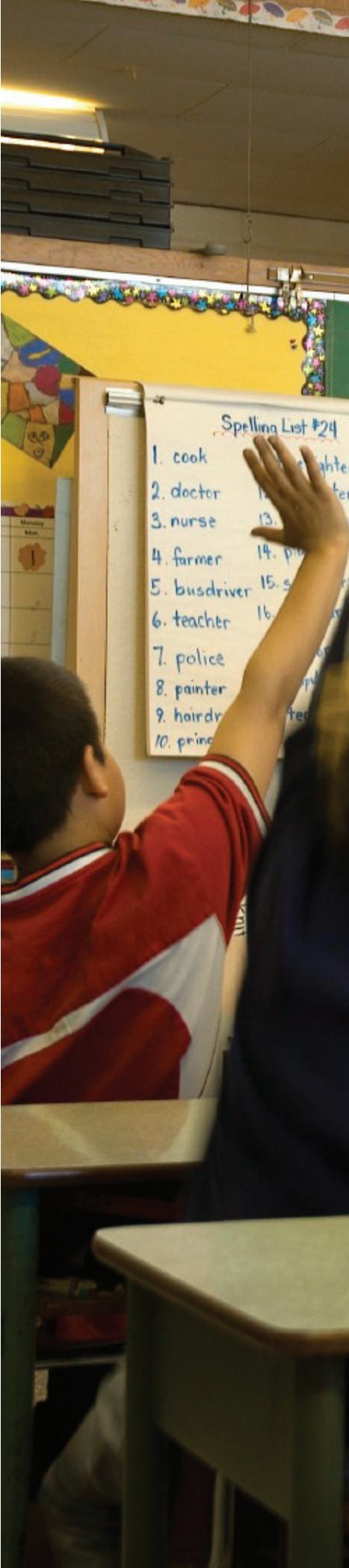


Fund the Student:

A Plan to Fix Rhode Island's Broken Public School Finance System



A report by Public Impact, initiated by a coalition of municipal leaders
Funded by the Rhode Island Foundation



This report was authored by Public Impact and Martin West, Ph.D.

See back cover for author biographies.

on behalf of a coalition of municipal leaders

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Introduction

In 2009, several of Rhode Island's mayors asked Public Impact, a national education research organization, to study the Ocean State's K-12 funding system and make recommendations on how to improve it. Based on our strong interest in the increasingly dynamic Rhode Island education system, and our expertise in state funding policy, Public Impact agreed. The Rhode Island Foundation in turn agreed to fund this report, which summarizes our findings and recommendations for state policymakers.

Our overarching conclusion is that to ensure Rhode Island's economic competitiveness, boost student achievement, and fulfill the promise of equal opportunity, the state must transform the way it allocates state funding for public education. Other states and leading large school districts around the country are moving towards education finance systems that distribute funds on the basis of carefully designed calculations that take into account the number of students served by schools and districts and each student's needs. The Ocean State, by contrast, continues to fund K-12 education without a guiding formula. Instead, the state makes a line-item appropriation to each town, based largely on the previous year's funding level. Over the last decade, a growing chorus of voices has raised serious concerns about this system because it does not meet the challenge of providing a quality education to every student in the state of Rhode Island under the state's Basic Education Program.

How the state allocates funds is just one of a trio of important funding policy issues facing any state. The other two, simply put, are **how much** money to spend (the overall amount of money to devote to public education), and **who should pay the bill** (the relative contribution of state and local tax funds). This study does not tackle either of those questions, not because they are not important, but because **devising a system for allocating money based on students' needs is a critical precursor to subsequent policy decisions about "how much" and "who should pay."** The first imperative for state policymakers is to create a transparent, dynamic system of allocating funds – whatever the amount and whatever the sources. With such a system in place, policymakers are then in a dramatically more solid position to consider changes in the overall level of spending and the tax policies that generate the required level of revenue.

As a result, this report recommends a new **allocation system** that is budget neutral; that is, it does not change the amount of funding available for public education in the Ocean State. And it presumes that, for the moment, Rhode Island will continue to use a pre-existing method of determining the proper mix of state and local dollars for education. Once a new allocation system is in place, Rhode Island's policymakers can – and should – turn to questions of how much and who should pay.

This report has four major sections following this introduction. In the first section we introduce the concept of student-based funding. Next, we examine the shortcomings of Rhode Island's current system for allocating education funding. The following section recommends four principles for a new allocation system in the state. Finally, we describe how the state could make the transition from its current model to one based on individual public school students and their educational needs.

Student-Based Funding

Across the nation, policymakers are reevaluating how they fund public education. State education finance systems evolved in the 1970s and 1980s against a backdrop of court rulings, designed to increase funding equity across school districts. Over the decades, these systems have become complex. As states have sought better and more efficient ways to fund public education, the mechanisms by which education funding is distributed have evolved to meet a complex set of changing needs.

Today, most states use formulas to determine the appropriate amount of state money to allocate to each district.¹ These formulas typically include some mechanism intended to ensure a fair and equitable distribution of funds, directing more state dollars to districts with lower local taxable wealth, higher levels of poverty or other demographic and geographic factors. In addition, states often use grants and line items to fund special programs and responsibilities that go beyond what is allocated by the core formula for distributing state aid. These grants are sometimes competitive – applied for and received by schools and districts based on some set of criteria. Other times, they flow based on their own formulas that take into account the characteristics of schools, districts, and their students. The result in most states is a complicated tangle of funding sources, each with its own logic.

These systems, which evolved in a different era, are ill-equipped to deal with the challenges of the 21st century for several reasons. First, despite policymakers' best efforts, these systems still typically fail to deliver funding "equity," with schools and districts with higher levels of disadvantage often having lower levels of funding. A recent report by Education Trust found that nationwide poorer districts receive on average \$825 less per pupil than wealthier districts.¹ Second, most state systems are not nearly as dynamic as the student population they intend to serve. Fewer and fewer students attend the neighborhood schools assigned by their districts; more and more choose charter schools, magnet schools, or schools in neighboring districts. Population shifts and increased family mobility lead to additional fluctuations

1 Griffith, M. "State Education Funding Formulas and Grade Weighting" Education Commission of the States: Denver, CO. May 2005. Available online: <http://www.ecs.org/clearinghouse/59/81/5981.pdf>.

2 "The Funding Gap 2006." The Education Trust, Special Report: Washington, DC. Winter 2006. Pg. 7

in student enrollment. Yet most state finance systems are too rigid to respond year to year to these flows of students. As a result, a district can continue to receive tens of millions of dollars for students who no longer attend its schools, or, in many cases, no longer live in the district. Alternatively, another district can face an influx of costly students and not receive any additional state aid to educate them.

Third, traditional systems offer few incentives for schools and districts to improve the results they receive with students. Year after year, the money districts and schools collect hinges on their student head counts, their students' demographics, the distant decisions of state policymakers, and the talents of their grant-writers – and not on the results they achieve.³ Finally, the complexity of these systems makes them opaque – certainly to parents and the general public, but sometimes even to the educators, school system leaders and policymakers who work with them.

In response to these shortcomings, leading policymakers, academics, and politicians have rallied around a new school finance model we call “student-based funding.” In 2006, the Thomas B. Fordham Institute published a manifesto entitled *Fund the Child: Tackling Inequity and Antiquity in School Finance*, supporting the principles of a funding system based on individual student need. To date, the manifesto had garnered over 200 signatures from across the political spectrum, from Democratic leaders such as former White House Chief of Staff John Podesta, to Republicans such as former Treasury Secretary Paul O’Neill, as well as from policy leaders at think tanks as diverse as the American Enterprise Institute, the Center for American Progress, the Hoover Institution, National Council of La Raza and Brown University’s Annenberg Institute for School Reform.⁴ In 2009, the School Finance Redesign Project at the University of Washington, a six-year, \$6 million research effort funded by The Bill and Melinda Gates Foundation and involving many of the nation’s most distinguished school finance experts, issued its final report calling for student-based funding as well.⁵ While much discussion of student-based funding has centered on the allocation of dollars within individual school districts, the logic behind the idea applies equally well to the state level.

The high level of bipartisan and expert support for student-based funding stems from the twin objectives such a funding policy achieves in one fell swoop: fostering equity and providing flexibility. These dual goals are centrally important: 1) As the

3 Hanushek, E. A. & Lindseth, A. A. *Schools Houses, Court Houses and State Houses: Solving the Funding-Achievement Puzzle in America’s Public Schools*. Princeton University Press. 2009.

4 Thomas B. Fordham Institute, *Fund the Child: Tackling Inequity & Antiquity in School Finance* (Washington, DC: The Institute, 2006).

5 Hill, Paul T., Roza, M., and Harvey, J., *Facing the Future: Financing Productive Schools* (Seattle, WA: Center on Reinventing Public Education at the University of Washington, 2009), available at http://www.crpe.org/cs/crpe/download/csr_files/pub_sfrp_finalrep_nov08.pdf.

student populations of schools fluctuate, a need-based amount of state funding goes to each school; 2) Students are able to move easily throughout the system with a high level of public school choice.

Under a student-based funding system:⁶

1. Per-student funding varies according to a child's need and other relevant circumstances. Students have different needs that sometimes require different levels of support. For example, students who come from low-income families and live in distressed communities tend to arrive at their school disproportionately below grade level and facing a variety of social factors that negatively impact their ability to catch up. These students may need more time and resources to get on track and stay there. These additional resources often cost more money, making some children more expensive to educate to high levels than others.⁷ Student-based funding uses one of several potential mechanisms to reflect these differences in need by "weighting" factors that increase the cost of educating some students. Ideally, all funds including local, state and federal are allocated per-student with attention to student need. As a practical matter, state legislation should ensure that funding appropriated from the state is structured in this way.

2. Funding follows the child on a per-student basis, to the public school or district that he or she attends. The money each child generates under a student-based funding system should "follow" that child to the public organization educating him or her, whether that organization is the child's home district, another district, a public charter school, or some other public provider. Under many systems, districts and schools do not automatically receive extra funding when a high-need student enrolls. One result is that schools have a disincentive to take these students. At the same time, schools that are driven to serve high-need students well do not receive any additional funding to accomplish their mission. Student-based funding treats fairly public schools that attract and retain disadvantaged students through their successful programs. Absent a student-based funding approach, it is difficult to empower disadvantaged students and families to exercise choice even when the overall system is, as in the case of Rhode Island, adequately funded.

6 For more detailed descriptions of how student-based funding systems should work, see the previously cited *Fund the Child and Facing the Future* reports. One commonly included feature of student-based funding is a high level of flexibility granted to schools or districts over how to spend funds. This report, however, focuses on allocation methods, not subsequent constraints on expenditure,

7 Duncombe, William D., and Yinger, J. "Measurement of Cost Differentials." In *Handbook of Research in Education Finance and Policy*, edited by Helen F. Ladd and Edward B. Fisk (New York: Routledge, 2008). 238 - 256.

3. **All funding systems are simple and transparent.** Wise spending decisions require that policymakers, school leaders, parents, and the public be able to see how money flows, and ultimately, how each education dollar affects student outcomes. Student-based funding therefore relies on simplicity and transparency in school funding to show clearly how much money each district receives from all funding sources, how much money each school generates based on its student population, and how schools and districts spend the money they receive. All of this information should be reported in a form that is both easy to access and to understand.

Student-based funding places educators in a much stronger position to provide great schools for all children. When money follows children based on need, schools and districts have strong incentives to serve them well – and especially strong incentives to serve disadvantaged children well. And when information about the flows, uses, and results of education funding is readily available, everyone from parents to school personnel to policymakers can make better decisions in the interests of students. Given time, stronger incentives and better information hold great hope for helping many more children achieve at high levels. EP tell much the same story.

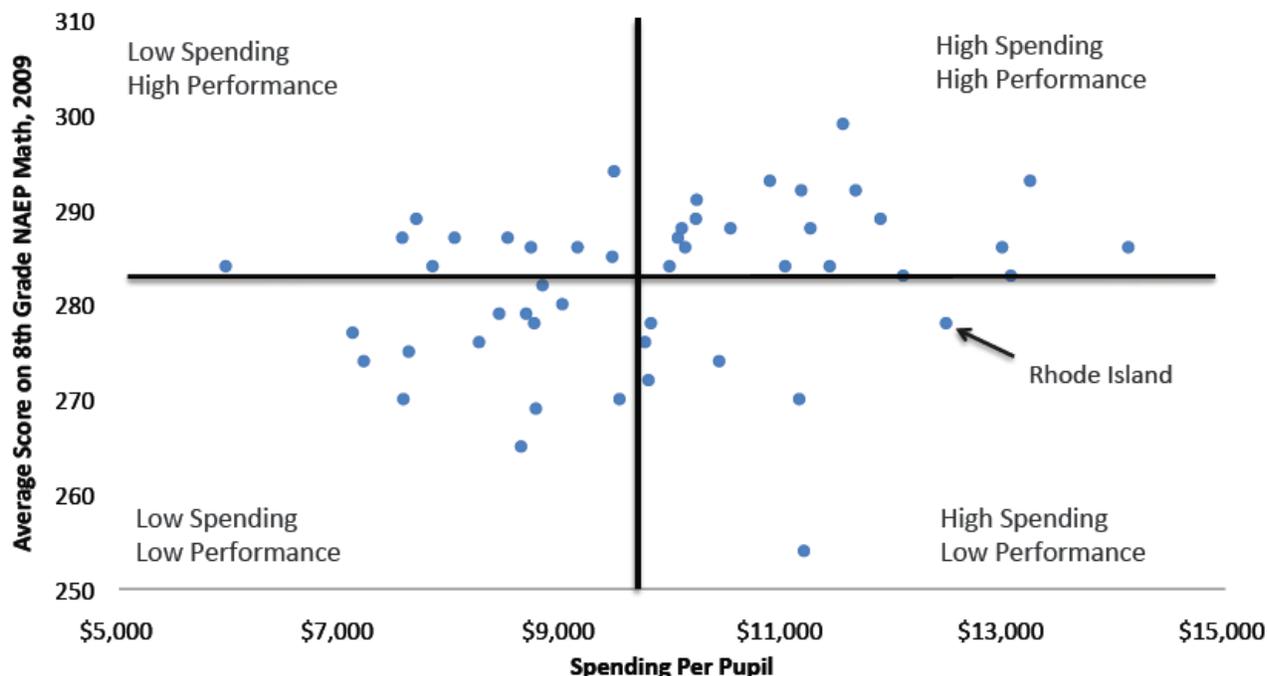
School Finance in the Ocean State

Money spent on education in the Ocean State has failed to produce strong results for parents and students. What is particularly striking about Rhode Island's education spending is the low return that spending generates for citizens. Rhode Island is one of only 5 states where every district spends above the national average. In 2006, Rhode Island had the 6th highest per pupil expenditures in the nation, \$12,478 adjusted for regional cost differences compared to the national average of \$9,644.⁸ Yet, despite the state's high spending, student performance continually falls below the national average, and even farther below the regional average.

Figure 1 shows where every state falls on spending and performance. Dots above the horizontal line were relatively high-performing states on the 8th grade NAEP math exam in 2009; dots to the right of the vertical line were relatively high-spending. States in the upper-left quadrant are those achieving relatively high performance levels while spending relatively little; that is, states getting a high return on their educational investments. Rhode Island is one of just a few states to fall in the opposite lower-right quadrant, which represents high-spending but low-performing states – the states getting the lowest return on their investments. Among the low-performing states, no state spends more than Rhode Island. While Figure 1 only examines 8th grade math, charts of other grades and subjects included on the NAEP tell much the same story.

⁸ Education Week, "Quality Counts, 2009." Available online: http://www.edweek.org/apps/qc2009/state_compare.html#table_5

Figure I: State's Return on Educational Investment⁹



With such high spending and low returns, it is obvious that the state's current finance system fails to meet the needs of students in the Ocean State. When we compare the state's funding system to that of other states around the country, it is apparent that the shortcomings in the state's system are not related to the level or adequacy of state spending, but rather the method and policy that drive funding allocations.

A student-based funding system that follows the principles outlined in this paper would maintain the adequacy of the state's current funding approach, but alter the method by which funds are allocated in order to support equity and encourage schools to help every child achieve at the highest levels.

⁹ Public Impact analysis of NAEP 2009 data (available online: <http://nces.ed.gov/nationsreportcard/>) and Ed Week, "Quality Counts 2009" (available online: http://www.edweek.org/apps/qc2009/state_compare.html#table_5)

The Case for Change

Legislators in the Ocean State have long understood the importance of education finance. In 1998, officials in the state General Budgeting Office wrote, “how Rhode Island funds its public schools is likely to be one of the most important issues facing policymakers as we enter the 21st century.”¹⁰ For over half a century, the state has been experimenting with different approaches to education finance. The first attempt to systematically fund education was in 1955, when legislators established a flat grant of \$17 per pupil and a categorical grant of \$200,000 to equalize funding across districts. Throughout the early 90s, legislators created a myriad of new funding categories to pay for costs like special education, professional development, and technology. With each new funding category, legislators created new distribution formulas to allocate the money across districts. Ultimately, this panoply of grants and formulas proved unsuccessful at equitably distributing funding. The system lacked transparency and proved to be too unwieldy. By 1999, the General Assembly had largely abandoned these experiments – funding was frozen and the state adopted a system whereby districts were funded based on historic precedence, rather than current student need.

Today, Rhode Island is the only state in the nation that does not use a funding formula to allocate any of its state resources to public schools. Funding for education is largely distributed through individual line items that direct small pools of aid to districts. Each year, every school district in Rhode Island receives a lump-sum appropriation from the state legislature for its share of education funding.

The ad hoc nature of the state’s education funding system has led to a system rife with inequity and inefficiency. Among the many problems with the current system, the most egregious are that it ignores changes in enrollment, creates a perverse incentive for districts to drive away high need students, wastes millions of dollars that could go to needy students, stifles choice, and treats districts inequitably.

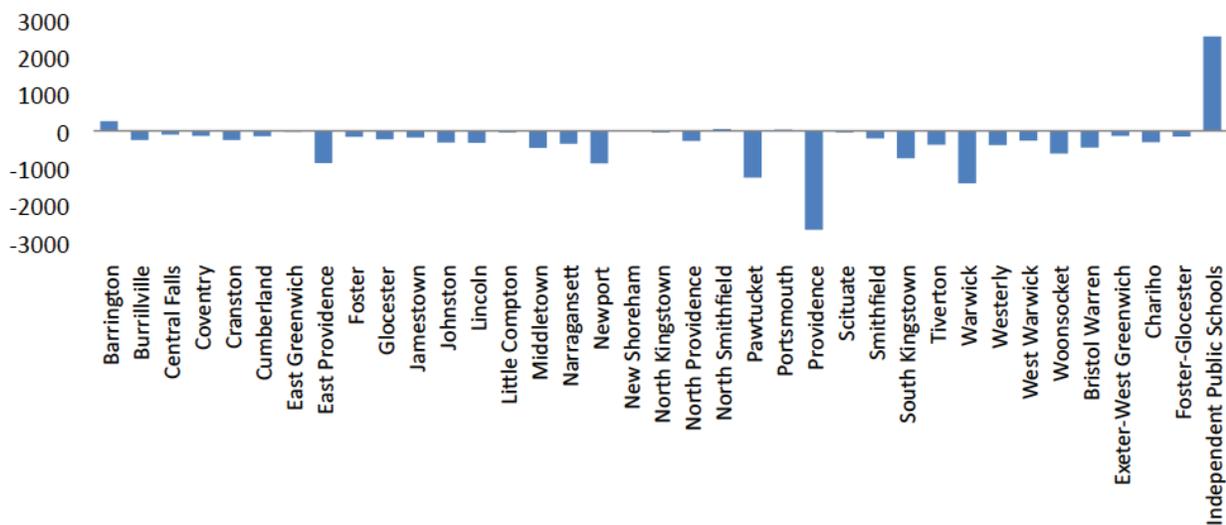
- **The current system does not respond to changes in enrollment.** The legislative line item system may have been adequate when student enrollment was relatively stable, but in the new complex world of changing demographics and school choice, Rhode Island needs a formal system where student enrollment drives allocations.

¹⁰ State of Rhode Island, General Budget Office, “Rhode Island Public Education Commission Report.” (Oct. 22, 1998)

Under the current system, districts are typically allotted funding on the basis of what they received the previous year, with their state revenue rising from one year to the next. As a result, funding has not responded to sizeable demographic changes taking place in the state over the last decade. Since 2000, enrollment in Rhode Island public schools has fallen by 7%. Enrollment has declined in almost every district, with the largest drops in urban districts (Figure 2).

Enrollment has also been affected by parents choosing to send their children to public schools of choice. In 2008, almost 3,000 students enrolled in charter schools across the state, and over 1,500 enrolled in state schools like MET and Davies Career & Tech.

Figure 2: Changes in Enrollment by District, 2000 to 2008



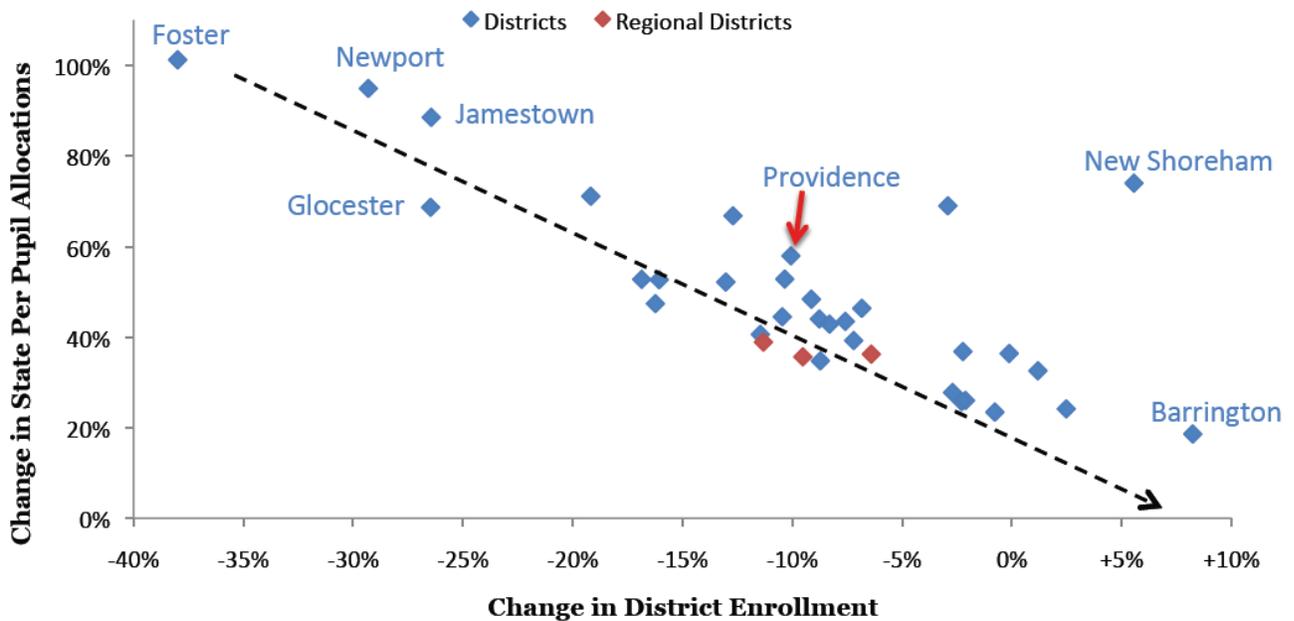
Note: Independent public schools include charter schools and other independent state schools like Davies and MET Career & Tech academy.

During this same time period, direct aid to districts and independent schools increased by 35% statewide. One result of the state's legislative line item system is that the state spent a disproportionate amount of this money in districts where enrollment is decreasing the fastest. When we compare the changes in state per-pupil spending with the changes in district enrollment, a clear pattern emerges: districts where enrollment has decreased the most have seen their per-pupil allocation increase the fastest (see Figure 3). The reason for this is simple: because the state lacks a system to allocate new education spending based on student needs, increases in state funding to education have been applied almost equally across all the districts. As enrollment has declined and spending from the state has increased, districts with fewer students have benefited by receiving more money per pupil.

This system might be defensible if increases in funding were targeted to districts where the number of high-needs students, such as those who qualify for free or reduced price lunch, was increasing. This, however, is not the case.

Districts where the percentage of high-needs students did not increase at all had an increase in funding equal to districts where the percentage of high-needs students increased the most. In some cases, districts where the number of high needs students did not increase at all received more funding. For example, as shown in Figure 4, between 2004 and 2008 the percentage of free and reduced price lunch students in Johnston increase by 59%; in Narragansett the percentage of free and reduced price lunch students fell by 17%. Over the same period, state per-pupil funding in Johnston increased by 12%, while state per-pupil funding in Narragansett rose by 34%. Without a system that adjusts state funding for student needs, the state has no automatic way to target additional education spending where the need is growing fastest.

Figure 3: Change in State Per-Pupil vs. Change in Enrollment, 2000 to 2009¹¹



Note: Data for Chariho regional district were not available. This district was not included.

¹¹ Public Impact analysis of Governors enacted budgets FY2000 and FY2008; Enrollment figures drawn from Rhode Island Department of Education Data, October 1st Enrollments. Available Online: <http://www.ride.ri.gov/Applications/fred.aspx>

Figure 4: Change in State Funding to Districts and Change in FRPL-Eligible Enrolled Students, 2004 to 2008¹²

District	State Funding	FRPL
Johnston	+ 17%	+ 59%
Narragansett	+ 34%	- 17%

- **The current system creates a perverse incentive for districts to drive away high-need students.** Over the last decade the number of disadvantaged students in the state, and those with special needs has steadily increased. Since 2004, the number of children who qualify for federal free and reduced price lunch has risen by over 2,000. The number of students who qualify for English language services (ELL) has also increased. Unfortunately, the state has fallen woefully short of its obligation to provide an adequate education to these students. In 2009, Rhode Island's achievement gaps between Hispanic and white students in 4th grade math were the second largest in the nation. In the same year, Hispanic students in Rhode Island had the lowest math scores in the nation. Reading scores were equally abysmal.¹³

Under the current funding system, districts receive no additional state funding for enrolling a high need student. This system actually creates a perverse incentive for districts to drive high need students away. If a school system is not providing an adequate education to a high need student and that student leaves, the district sees no change in its funding. In fact, the district would see an increase in per-pupil funding, since it would retain the child's money, but no longer need to provide an education to that child.

Alternatively, if a district is able to attract a high need student because of its success with similar children, it receives no extra funding to serve that student. The same is true for charter schools that successfully attract high need students. They receive no more funding for serving students who may need additional services than they do for more typical children.

¹² Public Impact analysis of Governors enacted budgets FY2000 and FY2008; Enrollment figures drawn from Rhode Island Department of Education Data, October 1st Enrollments. Available Online: <http://www.ride.ri.gov/Applications/fred.aspx>

¹³ National Assessment of Education Progress (2009). Available online: <http://nces.ed.gov/nationsreportcard/>

- **The current system wastes millions of dollars by double paying for students.** Current Rhode Island law is specifically designed to protect districts from losing any state funding to charter schools. In the current funding system, the state pays charter schools a portion of each student's costs, but it does not reduce the amount of funding it allocates to the student's district of residence. Districts continue to receive state funding for students who are no longer enrolled in their schools. As a result, the state is double-paying a share of funding for every student in a charter school. While legislators understandably adopted this approach to provide a fiscal cushion for districts, current budget realities have made this approach unsustainable. From 2006 to 2008, the state sent over \$30 million to districts to educate students who were attending charter schools. Going forward, if the state eliminated the double payment system, it could free up millions of dollars a year that could be reallocated equitably to public school students.¹⁴
- **The current system does not support new public school options.** The current funding system stifles the creation and expansion of new forms of public education like charter schools that stakeholders from parents to the federal government are increasingly demanding. If current trends continue and new public schools continue to become more popular, the state's funding system must become more flexible to accommodate these new education options. Currently, when the state approves a charter school, taxpayers must put additional money into the system as a separate line item. And each year these programs return to the legislature to lobby for new money in order to expand. This arrangement is burdensome to everyone involved: taxpayers and policymakers who must continually feed new money into the system and educators who have no way to predict their future funding and enrollment levels.

If the state adopted a funding formula that allocated funds based on student need, money for new programs could be drawn, automatically, from the existing system. As students left traditional programs, their funding would follow them to the new schools they chose to attend. This would allow for the expansion of programs that are increasingly attractive to parents looking for educational options that best meet the needs of their particular children – without state lawmakers having to make special appropriations.

With federal officials looking for states willing to make bold reforms, the fact that Rhode Island's current funding system stifles the creation of new charter schools is a liability that may compromise the state's chances of receiving competitive federal grants. With the passage of the American Recovery and Reinvestment Act

¹⁴ Based on an analysis of current spending, Public Impact has calculated that the state sends between \$14 and \$25 million each year to districts for students enrolled in non-district independent public schools.

(ARRA), states willing to enact enterprising education reforms can win an unprecedented level of federal funding through the “Race to The Top” competition. President Obama and Secretary of Education Arne Duncan have signaled – and the program’s draft guidelines make clear – that states limiting the growth and expansion of high quality charter schools, in particular, will be at a disadvantage when applying for Race to The Top funds. In addition, all indications are that the Obama administration will apply similar criteria in subsequent rounds of Race to The Top funding decisions and other future competitions for discretionary federal funding.

- **The current system fails to treat districts equitably.** A successful finance system funds similar districts similarly, and provides extra support to districts where need is greatest. The current legislative line item system accomplishes neither of these goals fully.

Rhode Island generally provides higher levels of funding to districts with lower levels of taxable resources and higher levels of student poverty. Still, similar districts – those with comparable resources and student populations – receive different levels of support from the state. For example, both Glocester and Lincoln have similar proportions of high-need students; yet, Glocester receives almost twice as much per pupil as Lincoln receives from the state (\$4,840 and \$2,174, respectively). Without a clear and transparent way to allocate funding based on student needs, school finance systems will continue to perpetuate inequalities between districts.

As Figure 5 shows, the current system also fails to provide extra resources where they are most needed. For example, in Middletown, 21% of students qualify for free and reduced price lunch and the state provides \$4,400 per pupil. In East Providence, 37% of students qualify; yet, the state provides only \$4,600 per pupil. In a system where historic precedence drives education dollars, funding does not automatically adjust to meet student needs.

Figure 5: Per-Pupil State Funding to Districts and Students Eligible for FRPL, 2008

District	Per-Pupil State Funding	FRPL
East Providence	\$4600	37%
Middletown	\$4400	21%
Glocester	\$4840	16%
Lincoln	\$2174	15%

A New System for Rhode Island

To solve the problems that plague Rhode Island's education funding system and to ensure every child receives a high quality education, change is needed. Rhode Island can transform its finance system into one that creates powerful incentives to boost student achievement by adhering to the following four principles.

Principle 1: Funding allocations should be based on one policy that is simple and transparent.

Under current Rhode Island law, the state gives no justification for the variable funding between districts. As a result, parents and taxpayers have no way of knowing why some districts receive more per-pupil funding than others. This lack of transparency ultimately harms education because the public understandably balks at tax increases for education when they do not understand how funding levels are determined.

One lesson from the state's experiments with finance reform in the early 1990s is that using many different funding streams, each with its own justification and funding logic, is untenable. Whatever system the state chooses to adopt should be based on a single legislated formula that clearly indicates the process and criteria used to determine education funding for every district and independent public school.

The state should also provide rich data to the public about the funding system once it is operating. Through a web-based, easy-to-use system, citizens should be able to

find out how much revenue each school generates for its district, how much districts spend on behalf of each school,¹⁵ how districts and schools spend their funds, and how all of the above change over time. Ultimately, the state itself or outside researchers should examine this growing database to look for linkages between funding patterns and student achievement growth, generating findings that could inform future evolutions of the funding system.

Though the majority of state aid should be allocated with student-based funding, there may be a need for categorical, non-student-based funds. These funds could be used to incentivize innovative programs in such areas as expanded learning time, pre-Kindergarten programs or career and technical education. The challenge is to ensure that these categorical funds remain a small portion of overall funding and are distributed equitably using predictable and transparent mechanisms.

Principle 2: State and local money should follow the child, on a per-student basis, to the district or independent public school that student attends.

At its heart, student-based funding is a simple idea: allocate state dollars directly to districts and independent public schools on a per-student basis, and ensure that total state and local funding for each student reflects the student's district of residence and measured need.

In the past, the state has funded district and independent public schools under separate systems. This dual approach to funding public schools was unfair for students and costly for the state. Currently, when a child attends an independent public school, like a charter school, only about 80% of the child's local money follows the child. The state makes up this difference by paying a larger percentage of costs for charter students than it does for district students. Under a student-based funding system 100% of local money would follow students to district and independent public schools. Additionally, because funding for districts is based on resident students, rather than enrolled students, the state is partially double paying for students who attended independent public schools outside of their district. By funding all public schools under a single system the state could free up millions of dollars to be distributed equitably to students across the state.

¹⁵ RIDE should provide detailed guidance to districts on the methods to use to determine how much they have spent on each school. These methods should include, among other requirements, that districts report the total actual salaries and benefits paid to staff at each school, rather than a figure based on average salaries and benefits. Research has shown that large intra-district discrepancies can arise from differential salaries and benefits, since some schools have more experienced and credentialed, and thus higher-paid, teachers than others. See, for example, Roza, M. and Hill, P.T., "How Within-District Spending Inequities Help Some Schools to Fail," Brookings Papers on Education Policy - 2004, (Washington, DC: Brookings, 2004), 201-218.

Prior to the beginning of each school year the state should use the most recent available enrollment data to determine the total number of students enrolled in every district and independent public school. The state should also determine the number of disadvantaged students (as defined in the policy) in each district and independent public school. The state should then calculate an amount for each district and independent public school based on the number students served and a supplemental amount for every student identified as disadvantaged. As discussed in principle 4 below, the state would only fund part of this basic level for each district and independent public school, financing a higher proportion for students residing in communities with more limited ability to pay from their own resources.

To accomplish this division, the state would need to first set a foundation per-pupil amount, and determine how much in additional resources to provide to disadvantaged students. Setting a foundation amount and determining the proper supplements for disadvantaged students is a complicated task. The true cost of education is a dynamic variable that changes over time in response to student need, macro and micro economic conditions, and the changing mandates developed for public schools. By setting the foundation amount based on recommendations from the Board of Regents, the state can ensure continued adequacy and equity of resources throughout the system.

Over time the state could conduct a rigorous analysis of spending and costs within the education system. The results of such studies could be used to inform policymakers as they adjust the foundation per-pupil and supplemental funding for disadvantaged students over time.

Principle 3: Student-based funding should vary according to a child's needs and other relevant circumstances.

To equitably fund every child, districts and independent public schools serving disadvantaged students should receive more money as part of their allocation. Schools serving disadvantaged students require these additional funds to implement strategies such as increasing the amount of instructional time, differentiating curriculum, or providing additional services to families of disadvantaged students. Also, with additional funding, schools serving large numbers of disadvantaged students can offer financial incentives to attract and retain high quality teachers.

Under a student-based funding system, the state would attach extra money to the foundation amount of each student with greater needs. This extra funding could be actual dollar amounts: an extra \$500 for a student in one category, \$1,000 for a student in another. Or it could be expressed in proportional terms, with students in a high-need category generating, say, 1.4 or 1.5 times the foundation level of funding.

Either way, the concept is the same: students with higher levels of need generate more funding. As a result, the schools they attend end up with more dollars to spend on their education.¹⁶ Across the nation, other states have provided extra funding based on eligibility for free or reduced price lunch, special education services, or gifted programs, or for certain types of students such as English language learners, homeless or transient students.

While student-based funding can ensure that students are receiving the funds they need, and will enable and even incentivize schools to serve all students well, there is a concern. In student-based funding, districts or schools may be provided with a financial incentive to over-identify students as having greater levels of need than they actually do. Over-identification can lead to both an explosion of cost to the overall system, and an inequitable distribution of funding. Whatever characteristics the system funds, the state should (1) develop objective state-established definitions for funded characteristics; and (2) implement a robust system for auditing districts' and schools' self-reported student counts.

One other way to minimize the risk of over-identification is to base funding solely on students' level of economic disadvantage. Economic disadvantage is relatively straightforward for districts to identify and for states to audit. While no one would argue that this characteristic captures all of a child's needs, economic disadvantage is highly correlated with other needs (such as English language learner status and some disabilities). And using this simple basis for funding would allow the state to move forward immediately with a basic need-based system rather than waiting to conduct a detailed cost analysis of different student needs. Once a basic need-based system is in place, policymakers could use research about costs to reset funding levels, add more student characteristics to the system, and otherwise adjust the basic system to accord with the latest data. The kind of analysis required will become increasingly possible as the state implements and accumulates data from the Uniform Chart of Accounts

Important design issues related to funding based on economic disadvantage include (a) how much additional funding to provide for disadvantaged students; and (b) what exact variables to use in determining a student's economic disadvantage (e.g., the student's free and reduced price lunch eligibility). We recommend that policymakers establish a funding level and a definition of economic disadvantage, and then make adjustments over time as data and research shed further light on these topics.

¹⁶ Schools receive some funding for high need students through federal programs like Title I and IDEA but these funds are not sufficient to provide additional services. In Rhode Island federal funding pays for only 7% of total education costs. In the case of special education, nationally the federal government only covers, on average, 17% of the cost of providing additional services to children with disabilities, see: New American Foundation, (2009). Individuals with Disabilities Education Act Funding Distribution.

Principle 4: The state and localities should share the cost of education equitably.

In determining how much state funding to provide to districts, the state should consider how much each local funding each community is able to contribute to the cost of its students' education. In Rhode Island, levels of local contributions to education vary significantly. For example, in 2008, schools in New Shoreham received more than \$20,000 per pupil from local sources, while schools in Woonsocket received less than \$3,000 per pupil from local sources.¹⁷ Given these large inequalities in local funding the state must ensure that districts with limited fiscal capacity receive a greater share of state aid than their wealthier counterparts.

One solution is to use a formula to adjust the state's allocation to each student to reflect local fiscal capacity of the district in which that student lives. Using a formula based on median family income, property values, and/or other relevant factors, the state would calculate a percentage, or "share ratio," for each district that represented what proportion of the per-student allocation the state would contribute in each district. For example, if the state calculated that the proper share ratio for District A was 75%, the state would contribute 75% of the total combined state foundation amount and funding for additional need for District A. Communities would continue to provide as much or as little additional funding as they saw fit.

Currently, the state uses a similar method to calculate housing and charter aid, known as Equalized Weighted Assessed Valuation (EWAV). The EWAV system calculates the proportion of costs that the state should pay in each district, based on median family income and assessed property values. If the state used EWAV to allocate education funding, districts with a low median family income and low assessed property values would receive a greater portion of state education aid and those with a higher median income and higher property values would receive a lower proportion of their education aid from the state.

While EWAV is arguably imperfect, our analysis suggests using it as the basis for an initial system of determining state and local shares, alone or in combination with other indicators of community need. As we argued at the outset of this report, Rhode Island's most urgent priority is to establish a system of allocation of funding that is student-based and need-based. Once that structure of allocation is in place, state policymakers can turn to issues such as the best way to share the costs of education between state and local government.

¹⁷ Based on an analysis of current spending, Public Impact has calculated that the state sends between \$14 and \$25 million each year to districts for students enrolled in non-district independent public schools.

For the EWAV system to accurately represent local tax capacity, the formula's main variables of median family income and property assessments must be kept current. The Department should avoid relying on U.S. Census alone for median income data, which is only updated every ten years. State property assessments of municipalities should take into account changes in assessed value in order to ensure that municipalities are being assessed accurately.

All districts should receive some state aid. This could be accomplished by setting a low but significant minimum share in the EWAV calculation. Without setting a minimum share several districts would receive no state aid for education. This minimum share would allow the state to maintain a level of oversight and targeted aid to districts.

Making the Transition

The experience of other states and districts that have implemented equitable funding formulas suggests that the most common concern raised by stakeholders is whether some districts that benefit from the current system will lose critical funding. To minimize the initial impact on districts, the state should adopt a transition plan to move from the current funding system to a new student-based funding system while taking steps to ensure maintenance of local effort during the transition.

Phase-in approaches. In a phase-in transition, the state would note the current level of total state aid to each district and calculate a target funding amount, using the student-based funding system, for each district. Each year, districts where the level of state aid was greater than the target amount would have their state funding reduced by some maximum percentage (e.g., 25%) or the amount needed to reach the target, whatever was smaller. Funding freed up by these reductions, as well as any new funding appropriated by the state, would be distributed proportionally to those districts and charter schools whose current funding amount was below their target funding amounts. This process would continue until, eventually, all districts and charter schools were funded based on the student-based funding system.

Since charter schools are already funded on a per-pupil basis, the state should base its transition plan for charter schools on their current per-pupil funding rather than their overall funding. In the case of a preexisting charter school, the state would calculate the per-pupil each school receives currently from the state and maintain that per-pupil amount. To calculate funding for charter schools, the state would multiply each school's enrollment by its per-pupil amount. The state would also calculate a target per-pupil amount for each school based on the student-based funding system. Each year, charters where the current per pupil was greater than the target per pupil would have per-pupil funding reduced by 5-25% or by the

amount needed to reach the target per-pupil funding level, whatever was smaller. As in the case of district allocations, funding freed up by these reductions, as well as new funding appropriated by the state, would be distributed proportionally to those districts and charter schools where the per-pupil amount was below the target funding amount

Public Impact modeled numerous transitional models to assess the effects of different approaches on Rhode Island's school districts. Assuming that student enrollments remain relatively stable, it would take the state 3-10 years to transition to the student-based funding system depending on the pace of the phase-in transition. While these models make a 5-25% annual reduction threshold appear practical, Rhode Island policymakers will need to decide on the transition model that works best for the state's districts and schools in light of the state's fiscal realities.

Maintenance of Effort. Under current Rhode Island law, communities are prevented from lowering local contributions to education from year to year. When adopting a new funding policy that would alter the distribution of state funding, the state should allow communities an opportunity to adjust their local contributions to account for new funding from the state, without reducing the amount of per-pupil funding available for public education. This may be especially important in districts that were underfunded in the previous system. To prevent local communities from completely supplanting local funds with state dollars, the state should rewrite the maintenance of effort statute in Rhode Island General Laws §16-7-23 to allow communities to lower their local per-pupil contributions, so long as the combined local and state contribution maintains the combined local and state contribution in the previous year. In this way, communities would be able to adjust their local effort to account for changes in state funding, but would be prevented from lowering the total per-pupil funding provided to schools.

This amended statute should remain in force for as long as the state expects to phase in the new formula for underfunded districts. At some point, however, conventional maintenance of effort must again be enacted on local per-pupil funding, to prevent localities from using subsequent increases in state aid to supplant their local contributions.

Conclusion:

Student-based Funding in Rhode Island

For over half a century, policymakers in the Ocean State have struggled to build an equitable system to fund public education. The current financial crisis and the woeful achievement of students across the state have created an undeniable imperative for legislators to act. By adopting a student-based funding allocation system the state would:

- **Create strong incentives for schools and districts to attract and educate disadvantaged students.** The large achievement gaps in the state clearly indicate that districts are not doing enough to serve disadvantaged students. Under a student-based funding system, students with extra needs would automatically generate additional funding that would follow them to whatever public schools they attended. This extra funding could provide additional supports to children most in need, and would eliminate the disincentive to enroll disadvantaged students.
- **Eliminate costly inefficiencies.** The current funding system is rife with inefficiencies like the partial double payment for charter school students that wastes millions of dollars a year. By incorporating all public school funding into the state's funding formula the state could eliminate the costly system whereby districts receive money for students who are no longer enrolled. Redistributing the funds equitably would have a positive impact on students across the state.
- **Design a system that is open, honest, and transparent.** Under a system that automatically distributes money on the basis of students and their needs, parents, policymakers, and stakeholders would have a clearer sense of how their money is being allocated and spent. They would be able to see state funding flow to schools on a basis that is both clear and defensible: student need.

With these improvements, the state would be in a much better position to follow through on the educational priorities recently outlined by Commissioner Deborah Gist and the Rhode Island Board of Regents. Those priorities are strongly aligned with competitive federal grant programs such as the federal Department of Education's Race to The Top competition. Both President Obama and Secretary of Education Arne Duncan have signaled that states that do not guarantee equitable funding for all students via a clear policy will be at a disadvantage when competing for Race to The Top funding. A student-based funding system that follows the principles outlined in this report would allow for clear and automatic funding that is responsive to the actual student populations of districts and schools. Additionally, the rich data that would come out of the system outlined here would allow the state to undertake a number of projects that would be of substantial interest to the federal

government. For example, by analyzing special education and ELL funding patterns across the state, Rhode Island could develop a sophisticated data system to enhance accountability for these students. Data systems are one of four priority areas that officials will consider as they review Race to the Top applications. Finally, monitoring and directing the manner in which districts transition to the new funding system will give the state more power to leverage real reforms at the district level. The ability of the state to leverage substantial reforms will give Rhode Island's application more credibility in the eyes of federal lawmakers.

A great strength of the state's current funding system is that taxpayers have devoted adequate resources to finance public education. The fact that Rhode Island has the sixth highest per-pupil funding in the nation suggests that the problem with the state's current funding system is not level of spending, but rather the system of distribution. With a system in place that maintains the state's adequate funding levels but automatically allocates funding based on students and their needs, policymakers can finally focus on larger funding issues like ensuring that every child's funding is put to good use.

Ultimately, if policymakers in the Ocean State are serious about educating every student, they must reform the state's antiquated finance system. The current system simply fails to meet the needs of the state's students. With a student-based funding system that follows the principles outline in this paper the state can finally realize the goal of funding every child both fairly and equitably.

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PUBLIC IMPACT is a national education policy and management consulting firm based in Chapel Hill, N.C. We are a small, growing team of researchers, thought leaders, tool-builders, and on-the-ground consultants who help education leaders and policymakers improve student learning in K-12 education. We believe that if we focus on a core set of promising strategies for change, we can make dramatic improvements for all students.

