



# Rhode Island's Funding Formula After Ten Years: Education Finance in the Ocean State

RIPEC

## Executive Summary April 2022

There is perhaps no function of local government that affects as many people or is as fundamental to the workings of American society as the delivery of elementary and secondary education, the importance of which is reflected in the sheer size of the investment of public dollars dedicated to education each year. Rhode Island makes relatively large investments in K-12 education; in fiscal year (FY) 2019, the Ocean State ranked ninth among U.S. states in per pupil revenues allocated for education (\$19,169) and exceeded the nationwide figure by 20.2 percent. Education is by far the state's largest local expenditure, comprising 60.1 percent of all municipal spending in FY 2019.

Going back to the earliest formal public schools in the United States, the administration of elementary and secondary education has primarily been a local exercise. While this local character remains an important feature of the U.S. education system, state and federal governments have taken on a larger role in financing education over the past century, particularly to address the variation in socioeconomic and demographic characteristics among public school populations and inequalities in property wealth and tax capacity among municipalities. These efforts to address inequality have given rise to a complex financial patchwork between federal, state, and local governments, including state funding formulas.

Enacted in 2010, Rhode Island's school funding formula began its ten-year phase-in starting in FY 2012. Rhode Island's education funding formula distributes state aid to traditional public schools through four key mechanisms:

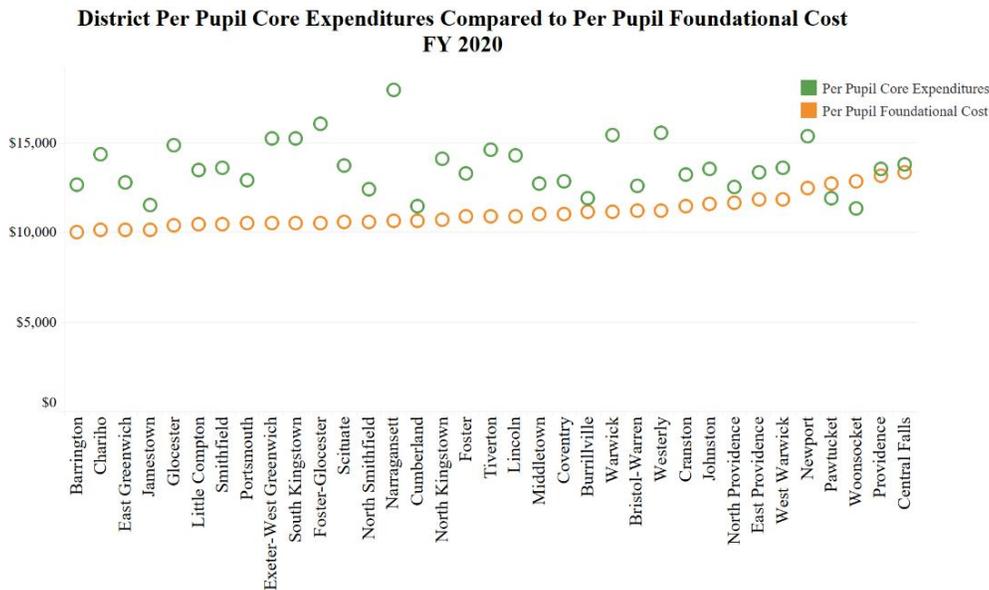
1. The state uses regional data on the cost of core educational expenses to calculate a per pupil core instructional cost.
2. For students from families at or below 185 percent of the federal poverty line, a 40 percent Student Success Factor (SSF) bonus is added to the core instructional cost.
3. The state funds a share of every district's total foundational cost (core instructional cost plus SSF funding) according to a formula that accounts for a district's relative property wealth and the concentration of students in PreK-6<sup>th</sup> grade living in poverty.
4. Funding follows students across districts and schools.

The implementation of the school funding formula has resulted in significant growth in the state's investment in K-12 education. In FY 2012, the first year of implementation of the formula, local

revenues for education (which made up 58.2 percent of total revenues) were significantly larger than state revenues (32.0 percent of total revenues). However, growth in state revenues contributed to 60.8 percent of the total growth in education revenues between FY 2012 and FY 2020, increasing the state’s share of total revenues to 37.3 percent that year. However, Rhode Island is still more reliant on local revenues for education than the nation overall and ranked 14<sup>th</sup> highest among states in reliance on local revenues in FY 2019.

Despite a large increase in state investment and redistribution of funding to needier school districts under the formula, stubborn inequities remain. Except for Providence, which spent slightly more than the statewide per pupil amount in FY 2020, districts with low property wealth and higher levels of students living in poverty tended to have low total per pupil expenditures—Pawtucket and Woonsocket were in the bottom five in per pupil expenditures in FY 2020, while Central Falls was in the bottom ten. These disparities in per pupil spending are concerning given that the framers of the school funding formula included the SSF bonus in recognition that students living in poverty generally require more educational resources.

Additionally, there are disparities in core expenditures, which are funded through state formula aid and include direct instruction and student support services. For FY 2020, Pawtucket and Woonsocket respectively spent \$822 and \$1,526 less per pupil on core expenses than the amount needed to reach the total foundational cost determined through the funding formula. Central Falls and Providence have the two highest per pupil foundational costs based on their proportion of students eligible for the SSF. However, even with the SSF bonus and other sources of funds, the districts exceeded their per pupil foundational cost by relatively small amounts—\$490 and \$397, respectively. As shown in the figure below, many districts with significantly smaller proportions of disadvantaged students exceed their per pupil foundational cost by relatively greater amounts, despite receiving relatively small shares of state aid.



Note: New Shoreham is excluded because it is a significant outlier due to its small size and high per pupil expenditures. In FY 2020, New Shoreham's per pupil foundational amount was \$10,589 and its core per pupil expenditures were \$31,917.  
Source: RIDE UCOA Data; RIDE FY 2020 Funding Formula Calculations; RIPEC calculations.

The COVID-19 pandemic has resulted in two additional developments that affect the state's education finance system. The first is a decline in enrollment—between October 2019 and October 2021, Rhode Island's traditional public school district enrollment fell by 6,554 students, or 4.9 percent. To prevent large declines in state formula aid due to lower enrollment, the state enacted a "hold harmless" provision for the calculation of FY 2022 formula aid, which calculated state aid using the larger of a district's enrollment from March 2020 or March 2021. Governor Daniel J. McKee's budget for FY 2023 proposes to extend this hold harmless by ensuring that districts receive at least as much state formula aid as in FY 2022, at a cost to the state of \$49.7 million. The second development resulting from the pandemic is a significant infusion of federal funding for Rhode Island public schools included in federal pandemic response legislation. From March 2020 to March 2021, Rhode Island public schools were allocated \$581.5 million in additional federal funding. While 20 percent of these funds must be used to address the learning loss which resulted from pandemic-related disruptions to in-person schooling, there are few other requirements tied to the spending of these funds.

Given these findings, RIPEC offers the following considerations for state and local policymakers:

- **The state should continue to increase its share of total education revenue.** Despite the growth in state K-12 education expenditures, Rhode Island's system is still more reliant on local revenue than the nation overall. The state should enact reforms to the funding formula with the aim of establishing a roughly even balance of state and local revenues, consistent with the education revenue mix nationwide.
- **Further state aid should be targeted to support disadvantaged communities.** The state should ensure that greater state investments are targeted towards districts with relatively low property wealth and high proportions of students living in poverty, with an aim of bringing these communities at least to the current level of overall statewide per pupil expenditures. Policymakers should consider whether the 40 percent SSF bonus is sufficient to meet the needs of eligible students. Additionally, a built-in formula weight for limited English proficient students, who often require greater resources than those needed by SSF-eligible students, is worthy of consideration.
- **The state should strengthen local maintenance of effort requirements to ensure that state funding supplements, rather than supplants, local funding.** The state should require that local districts demonstrate MOE by maintaining at least the same level of spending year-over-year on a per pupil basis and consider removing exceptions in law which allow for local communities to decrease local contributions. Ensuring that local contributions keep up with enrollment will be especially important if recent declines in enrollment reverse.
- **Discretionary funding tied to school improvement should be allocated to RIDE.** While the state's funding formula is based on educational expenses as inputs, there are no streams of funding that are meaningfully tied to educational outcomes. Legislators should provide

a dedicated stream of funding to RIDE that can be used to incentivize district- and school-level reforms, efficiencies, and student improvements. Grants should be leveraged to both assist with turnaround costs and incentivize successful implementation.

- **Federal pandemic relief funds should be used strategically to maximize the impact on student learning.** The federal education funds received by the state represent an extraordinary one-time opportunity for investment. It is essential that these funds are used strategically to address student learning loss, ideally at a proportion greater than the 20 percent required by law.
- **The state's constitution should be amended to include a judicially enforceable guarantee to a meaningful and adequate education.** K-12 education reform is not currently being approached with the urgency demanded by the serious shortcomings within Rhode Island's education system, which is approaching a state of crisis. A constitutional amendment would stimulate the action needed to achieve serious legislative reform of school funding or otherwise give the courts standing to rule the current system unconstitutional.

This report is the third in a series on municipal finance and, as with the first two reports in the series, includes figures available on RIPEC's website that allow for user interaction and manipulation. The data dashboard that corresponds with this report is available [here](#).