RIPEC

Comments on Your Government

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Taxpayer Guide to School Finance Reform

This report outlines the key characteristics of a foundation aid program to finance public schools (The Educational Equity and Property Tax Relief Act of 2004), briefly summarizes alternative methods of financing public education, outlines issues to consider in designing a school finance system, and suggests "next steps" to reform Rhode Island's state-local school finance system.

How education is financed has been a long and often litigious debate affecting State and local governments across the country. What role should the State government play in funding schools, where does local control end and State oversight begin, and how should the State equalize local fiscal capacity are often core questions in the school funding debate.

Unlike several New England states, Rhode Island has not been directed by its courts to restructure its method of funding education. Nevertheless, due to the changing economic and fiscal conditions in the State and the over-reliance on the property tax to fund schools, how Rhode Island funds its public schools is likely to be one of the most important issues facing policy-makers because it will have a direct impact on our ability to attract and retain jobs.

Rhode Island has not had a predictable state education aid formula since 1995. The General Assembly has annually allocated state education aid to local school districts making it difficult for local officials to adequately plan for education services in the coming school year. School spending in Rhode Island has grown by nearly three times the rate of inflation since FY 1998. In addition, the State continues to rely on property taxes as the principal tax source to fund schools, bringing with it issues of tax equity among local property taxpayers as well as gaps in resources available for core instruction costs among school districts.

On Wednesday March 3, 2004, municipal leaders and RIPEC announced a Coalition to promote property tax relief and educational equity in Rhode Island. This Coalition was formed because:

- Continued over-reliance on the property tax as the principal tax source to fund schools, brings with it issues of tax equity among local property taxpayers, as well as issues of gaps in resources available for core instruction costs among school districts.
    - Rhode Island's local property taxes accounted for almost 60 cents of every dollar raised to support our public schools. Nationally local governments provide about 43 percent of the revenue to support their K-12 systems.
    - Rhode Island's property tax burden is almost 50 percent higher than the national average and ranks 5th highest among the 50 states.

- Over-dependence on the property tax is not the only structural problem facing the school aid system. Another fundamental issue is the rate of growth in spending without the commitment to accountability. Rhode Islanders make a significant investment in public education, ranking 7th in the Nation in per pupil spending in FY 2003. More than $1.8 billion was spent on public schools in Rhode Island in FY 2004. Between 1994 and 2004 spending for public education increased by an estimated $845.0 million, or 87.0 percent.

The Educational Equity and Property Tax Relief Act of 2004

There are essentially four types of state-local school funding systems – Flat Grants, Full State Funding, Foundation Support and District Power Equalization (See Appendix A). It should be noted that there are numerous variations within these programs. However, in developing a permanent and predicable school system, the Coalition attempted to recommend a system where:

- The school funding system treats property taxpayers equitably, limits the portion of school budgets financed by property taxes, and establishes sufficient cost controls on school spending;
- The State ensures that its school funding structure adequately reflects the different needs of students, and closes the educational inequities among the State's school districts; and
- The State education funding system provides a predicable amount and source of funding to ensure stability in the funding of schools.

The *Educational Equity and Property Tax Relief Act of 2004* would start the process of establishing a permanent foundation formula for funding public education in the Ocean State to accomplish these goals. It is important to note that the Act has established a timeline for the State to begin implementing a new formula – FY 2008. This will give all concerned ample opportunity to ensure the process is fair, makes sense and results in an affordable and realistic method of funding Rhode Island's public schools.

A battle-cry heard daily during budget season is that the current funding structure lacks any sense of predictability. Because local school districts rely on the property tax and State aid to fund education services, it is critical that municipalities can depend on a funding program that is stable and reliable. The Coalition's proposal for a foundation formula will provide greater predictability in both the amount and source of funding, permitting educators, policy-makers, and parents to initiate and implement effective and efficient school programs. The foundation program is relatively simple to understand in its policy direction, methodology and intent. The methodology is also flexible enough to permit adjustments and changes in policy direction without requiring a complete revisit of the funding calculations.

Given that the property tax funds approximately 60.0 percent of the State's public education system that is annually increasing three times the rate of inflation, it is not surprising that the State's over-reliance on the property tax has catapulted the State to 5th highest property tax burden in the country. Rhode Island's property tax burden is nearly 50 percent higher than the national average.

Bottom-line - there are three ways for Rhode Island to ensure property tax relief occurs– through tighter spending controls; through replacing property tax dollars with State funds; or a combination of the two. In order to ensure that the program translates into real property tax relief, there must be sufficient cost control and accountability on the local school budgets.

The following outlines the key components of the proposal. One will note that it is designed to encourage debate as well as keep citizens on task to finally repair a dysfunctional school funding system. There are essentially five elements to the Coalition's program:

- Foundation per-pupil;
- Student Need;
- State/Local Financing Structure;
- Accountability and Governance; and
- Transition

Foundation Per-Pupil: A foundation formula for school finance begins and ends with controlling the growth in school spending. The proposal recommends that the State establish a foundation amount per pupil that reflects what one expects is necessary for a student to have access to an adequate education.

What the Coalition has suggested is that there is a need to agree on an appropriate process to ensure that the amount arrived at reflects modern educational standards while ensuring the effective use of the resources. Municipal officials recognize that there are many interests involved in this process, but maintain that it is essential that there is a deliberate process to arrive at what Rhode Island should spend for public education.

The Coalition's proposal outlines a number of issues to control costs, including provisions requiring school districts to pursue the least cost option in providing services and purchasing goods. These kinds of mechanisms are essential to ensuring that the school districts maximize their resources.

The first step in developing a foundation formula is to determine, or "cost-out" the amount of money required to give every child the opportunity to meet mandated educational standards. In Rhode Island there is no real methodology to determine what amount of funding should be provided for elementary and secondary education. There has been no discussion of what resources schools need in order to enable their students to meet the State's learning standards. And, nobody in the State has systematically looked at expenditure data to determine if the system is being operated in an effective and efficient manner.

To address these concerns, the method of financing schools must be built on a costing-out study to obtain rationally based, objective information on how to fund public education and at what levels. Costing out studies have been undertaken in 28 states since 1991.
Although state specific approaches have been devised to develop foundation cost models, these approaches tend to fall into three main categories – successful school; professional judgment and effective strategic models[1].

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[1] The discussion below is based on work done by the Advocacy Center for Children's Educational Success with Standards: Ensuring All Children the Opportunity for an Adequate Education: A Costing-Out Primer, 2003.

Successful School Approach – The successful school model identifies schools that have achieved a certain level of student performance. Expenditure levels in these schools are used to project the amount of spending that would be necessary to obtain a similar result.

Examples of the use of the successful school approach can be found by a system developed by a panel in Ohio. The Ohio methodology selected its sample of successful school districts using six measures of student achievement and eight resource measures, such as pupil-teacher ratios and average class size.

Professional Judgment Approach – The professional judgment model was first developed for the states of Illinois and Alabama in the early 1980's. Its most well known recent application was used in Wyoming. The Wyoming model involved numerous meetings of groups of local educators as well as educators from neighboring states who identified the components of an educational system that could provide an adequate education. Once the educational experts proposed an educational market basket of goods and services, economists determined the costs for the state's school district through a series of pricing analyses.

In summary, the professional judgment approach is premised on the assumption that determination of the foundation amount involves a panel of experts that are convened to identify the qualities of programs necessary for an adequate education. These panels typically have teachers, administrators, parents, business leaders and policy makers.

The Effective Strategic Approach – The effective strategic method, or expert judgment approach, identifies educational programs that are considered to be effective. Experts then identify inputs that support the strategies, such as staffing and technology needs, and estimate the cost of each component. According to the American Federation of Teachers, this methodology was employed in New Jersey, Wisconsin and Kentucky.

The proposed Education Equity and Property Tax Relief Act of 2004 provide that:

> "The State will establish a per pupil foundation amount to be used in the calculation of school funding."

In order to provide an equitable and adequate education, the per pupil foundation amount must consider various cost factors, such as pupil-teacher ratios, compensation, technology investments, educational supplies, teacher training and professional development, student performance assessments, curriculum offerings and support services, and other costs associated with the delivery of educational services.

However, the legislation does not spell-out how and who shall determine the foundation amount. In making that determination one salient principle that should be followed is that the taxpaying public should be given the opportunity to become involved. Public engagement must play a significant role from the outset in a costing-out study to determine the foundation amount. Also, the process should not be dominated by any one group. The panel responsible for making a recommendation to the General Assembly should include parents, teachers, school committee, municipal and business leaders, the State Department of Education (RIDE), and colleges and universities. The panel should also be provided sufficient resources in order that it secures appropriate and independent staff support.

Student Need There are students that may require additional resources, such as Special Education students - those with Individual Educational Plans (IEPs), children from families with limited economic means and those that may require additional language assistance. The foundation formula is designed to account for these additional needs. Some states also account for the cost differential related to high school students compared to elementary students. It is essential to determine what the additional expenses are related to these needs to determine how a student's needs will be reflected in the budget.

Table 1 displays what the impact of weighting students for need based on a hypothetical community. Observe that subsequent tables use four hypothetical communities to demonstrate how a foundation formula might work in Rhode Island.

Table 1

Adjusting for Student Need - Community A Example

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

Table 2 shows four different school districts with enrollment patterns that differ in size as well as student need. For example, School District A has approximately 1,875 actual students in its school system, of which 350 (19.0 percent of total enrollment) are currently identified as in need of special education, 400 (21.3 percent of enrollment) are eligible for the Federal free and reduced lunch program, and 30 (1.6 percent of enrollment) receive language assistance programs.

For illustration purposes, assume that the State has assigned a weighting system where a special education student requires 20.0 percent (weighting of 0.2) more in resources than the average student in order to provide adequate educational services to the child. Similarly, assume that weights for economically disadvantaged children of 25.0 percent (weighting of 0.25) and for limited English children of 10.0 percent (weighting of 0.1). In this example, one would apply the appropriate weight to the actual enrollment noted above. The table to the right displays the formulas for each weighted factor.

Table 2
Weighted Student Counts by Community

Hypothetical Community	Actual Enrollment: Enrollment	Special Ed	Lunch	LEP	Enrollment 1.00	Special Ed 0.20	Lunch 0.25	LEP 0.10	Total Count
A	1,875	350	400	30	1,875	70	100	3	2,048
B	6,250	1,100	2,000	500	6,250	220	500	50	7,020
C	4,375	800	1,000	100	4,375	160	250	10	4,795
D	2,188	500	800	80	2,188	100	200	8	2,496
Total:	**14,688**	**2,750**	**4,200**	**710**	**14,688**	**550**	**1,050**	**71**	**16,359**

Source: Hypothetical Model developed by RIPEC for illustration purposes only

In other words, while Hypothetical Community A may only have 1,875 actual students in its school system, the weighting methodology artificially increases the number by 9.2 percent to account for students with greater needs. If one applies the same methodology to several other school districts in this illustration, one can see the impact of weighting on each, and how the greater concentration of student need is then reflected in their total weighted student count. For example, Community D would have its actual enrollment inflated by 14.1 percent given the higher concentration of students under each of the need categories.

Key to the process of accounting for student need is accurate and audited student data. In addition, the formula must ensure there are not unintended "incentives" for over-identification of student need. For example, one would not want to design a weighted student count that encouraged school districts to increase student counts in certain higher cost areas in order to receive additional resources. Therefore, as the process moves forward, adequate controls will need to be in place.

Another area of concern is the individual student who requires extra-ordinary assistance, such as those that may require expensive accommodation and care. The Coalition has recognized this as a significant financial burden on communities regardless of their ability to raise resources, and therefore there is a need to ensure that there is an appropriate cost-sharing arrangement to meet the needs of these students. The Act specifically provides that the foundation program account for "extraordinary special education expenditures."

Table 3
Calculating School Budget - Community A Example

	Weighted Enrollment		Hypothetical Foundation		Weighted Budget
Total Enrollment	1,875	X	$10,000	=	$18,750,000
Special Education	70	X	10,000	=	700,000
Subsidized Lunch	100	X	10,000	=	1,000,000
Language Assistance	3	X	10,000	=	30,000
Total Weighted Budget					$20,480,000
Impact of Weighted Enrollment					$1,730,000

School Budgets: The foundation program would therefore calculate each school district's budget based on the foundation per pupil amount and the weighted student enrollment in each school district. For illustration purposes, assume that the State has arrived at a foundation per pupil amount of $10,000. Continuing the example of weighted student enrollments from above for Community A, its education budget would total $20.5 million, which represents $10,923 per pupil. The increase of $923 per pupil is due to the weighting of the students with various needs. If the foundation per pupil amount were only applied to actual enrollment, Community A would receive $18.75 million. The additional $1.73 million is due to the weighting of student need.

Table 4 outlines the example using the same four hypothetical communities. While each school district will receive more than the foundation per pupil amount given the process of weighting students based on measures of need, those school districts with greater concentrations of need will receive more per pupil than the average school district. For example, Community D per pupil spending after applying the $10,000 per pupil against the weighted enrollment would total $11,408, which is the highest among the four hypothetical communities. This represents a 14.1 percent increase in spending related to students with additional need.

Table 4
Estimated Budget Impact of Weighting Students

Hypothetical Community	Actual Students	Weighted Students	Impact of Weighting	Weighted $10,000	Per Pupil Spending	Weighting Impact on Spending		
						Total Cost	Per Pupil	Percent
A	1,875	2,048	173	$20,480,000	$10,923	$1,730,000	$923	9.2%
B	6,250	7,020	770	70,200,000	11,232	7,700,000	1,232	12.3%
C	4,375	4,795	420	47,950,000	10,960	4,200,000	960	9.6%
D	2,188	2,496	308	24,955,000	11,408	3,080,000	1,408	14.1%
Totals:	**14,688**	**16,359**	**1,671**	**$163,585,000**	**$11,138**	**$16,710,000**	**$1,138**	**11.4%**

Source: Hypothetical Model developed by RIPEC for illustration purposes only

However, as proposed by the Coalition, the program does permit local school districts to augment their school budget, albeit limited. There are two principle reasons for limiting the local community's ability to increase spending for schools. First, as noted above, the only way to ensure property tax relief throughout the state is to gain control over spending. Without some control over additional local growth on school spending, the residents of those communities would not be able to ensure property tax relief. Secondly, one of the issues currently facing Rhode Island is that there are disparities among school districts in the resources behind each child given local capacity to raise resources. Should the State permit unlimited local increases in addition to the foundation per pupil amount, those inequities would remain.

State/Local School Financing of the System: Once each school district's budget is determined as described above, the next step is to ensure that the state-local financial infrastructure is designed in a way that provides a predictable funding structure that engenders property tax relief. What the Coalition is proposing for consideration is a funding structure that continues to couple state resources with local education property taxes.

There are a number of issues on how the funding for the foundation program would work. First, the Coalition is proposing a statewide property tax rate that would *replace* existing local tax rates for schools. This rate has not been determined to date, nor has its design. There are many methods of establishing a statewide property tax rate, and therefore it requires greater examination by the General Assembly, municipal officials, school committees, taxpayers, parents, teachers and business leaders. However, fundamental to moving in this direction is to ensure that the process results in property tax relief.

The Coalition recognizes there are many aspects of the financing component of this program that require additional work and discussion. The Coalition felt that it was necessary to begin the debate with a property tax relief element to the foundation program that will translate into real property tax relief in the Ocean State. The Coalition believes that a State-local partnership to evaluate options and to recommend a process to limit property taxes as a method of funding schools is essential. The State will have to review its 5.5% property tax cap in light of any changes to ensure that relief on the educational side of the property tax levy does not translate into unanticipated increases on the municipal side of the levy.

The fundamental component of the proposal is that the starting point for each community is its existing local education tax rate. In other words, the Coalition's proposal recognizes the diversity of rates and property tax bases across the state, and therefore has proposed that no community's effective property tax rate on real property increases when the foundation program is enacted. The proposal does not recommend shifting property wealth from one community to another, nor does it propose that certain communities raise their property taxes to fund other school district expenses.

Even prior to taking into consideration different enrollments and student demographics, there are clear distinctions among Rhode Island's communities with regard to their ability to raise local funds. The limited capacity in poorer districts perpetuates higher tax rates to provide sufficient funds to meet a wide range of obligations. Although municipalities differ in specific ways, it is clear, whether measured by effective tax rates, the index of tax capacity and tax effort or by property wealth per pupil, certain communities generally lack the fiscal capacity to address basic educational and municipal needs.

Table 5 continues the four hypothetical communities. In this example, if the State were to establish a statewide property tax rate of $10.00 per $1,000, it would raise different amounts of property taxes depending on the tax base of each community. In Community A, a tax rate of $10.00 per $1,000 would generate $22.5 million. However, Community A's total budget is only $20.5 million. Therefore, under the Coalition's proposal, this community would only be required to raise the $20.5 million – which translates into a tax rate of $9.10 per $1,000.

Table 5

Summary of Financial Impact of Model

Hypothetical Community	Students Weighted	Student Budget Weighted	Assessed Value	Property Tax $10.00	Estimated State Aid	State Aid Per Pupil	Percent of Budget Supported By: Local	State
A	2,048	$20,480,000	$2,250,000,000	$22,500,000	$0	$0	100.0%	0.0%
B	7,020	70,200,000	3,000,000,000	30,000,000	40,200,000	6,432	42.7%	57.3%
C	4,795	47,950,000	2,500,000,000	25,000,000	22,950,000	5,246	52.1%	47.9%
D	2,496	24,955,000	1,500,000,000	15,000,000	9,955,000	4,551	60.1%	39.9%
Total:	**16,359**	**$163,585,000**	**$9,250,000,000**	**$92,500,000**	**$73,105,000**	**$4,977**	**56.5%**	**44.7%**

Community A would not be required to raise $24.8 million in local funds based on the statewide tax rate. Rather tax rate would be $9.10 per $1,000 to generate $20.5 million.

Source: Hypothetical Model developed by RIPEC for illustration purposes only

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

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

One aspect of this concept is that there is no redistribution of "excess" property tax levies generated among communities. Using the example above, the Coalition's proposal would not require Community A to have a $10.00 per $1,000 rate so that it could take the $2.0 million in excess of its total school budget to fund the need in other communities. Rather, the program would only require Community A to raise its own resources based on its local property tax base – the proposal does not redistribute property tax levies among communities.

Accountability and Governance: Because a significant State and local investment is made to support public elementary and secondary education, policy-makers and taxpayers are demanding that schools demonstrate that existing resources are used efficiently. Pressure on school districts to effectively use resources has increased in recent years as other budgetary demands, such as health and human services, and infrastructure, continue to grow. The goal is to increase the return for each dollar spent in education. Efficiency also relates to the ease of interaction among school districts and state administrations.

The chain of command in policy development and implementation, the reporting of student achievement and school expenditures, and the enforcement of regulations are all issues of efficiency that have an impact on the effective use of resources. School districts and state education administrations must be able to demonstrate that they are taking advantage of opportunities to use existing funds more efficiently.

Changing the way Rhode Island funds its school system will require a new perspective on how the school governance structure should evolve. Clearly, given that the State would have a greater role in determining a district's bottom line based on the foundation, per pupil amount and student needs, school committees may be able to focus more of their energy and attention on educational policies and practices, curriculum, professional development, advocacy, inter-jurisdictional agreement, and student and school performance.

Fundamental to ensuring that State residents receive an adequate educational opportunity and real property tax relief is putting in place the appropriate mechanisms to hold policymakers accountable. Should the Governor or the General Assembly propose a change in per pupil amount, the student weights or the statewide property tax rate, the State should provide a fiscal impact statement detailing the impact by community. In addition, there needs to be some flexibility to allow school districts to prioritize its resources to meet their particular needs. In providing this flexibility, there should also be appropriate safeguards so districts cannot exceed their budgets. For example, local communities may also have extraordinary provisions to exceed the foundation per pupil amount, which would make it possible for school committees to augment local educational programs.

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

In addition to fiscal accountability, there is a need to monitor student performance. Monitoring the performance of the school system requires accurate and timely information that links investments with student outcomes. The measures used to assess students should be easily understood and outline performance goals to gauge progress.

Transition: The most difficult element of a new school financing structure is moving the State from the existing system of funding schools to the new method of funding. Rhode Island is not starting from scratch – the history and culture of the current system are often overwhelming, and the system's financing intricacies and relationships, particularly as they affect local budgets, must be considered. Therefore, there is a need to develop and follow a transition program for all cities and towns and the state.

Education Finance Reform in Vermont (Act 60)

The State of Vermont has implemented a hybrid form of the foundation formula that has distinct differences when compared to the Rhode Island Education Equity and property Tax Relief initiative. First, the State provides roughly a $5,000 per student grant plus additions for transportation, special education ad other costs. The State established two property taxes – a statewide property tax to equalize community's ability to finance the $5,000 per pupil spending and a local school tax, both of which require wealthier communities to subsidize schools in other school districts.

The Statewide property tax rate, which is the same rate (11.00 per $1,000) regardless of wealth, generates more than necessary in some communities to fund the $5,000 per pupil than in poorer communities. The additional state property taxes raised in the wealthier communities (those that are in excess of what is needed to support the $5,000 per pupil) would be used to provide grants to the property wealth poor communities who were unable to generate sufficient funds to support the basic program based on their local tax base. This rate and level of expenditure represents approximately 85.0 percent of the total spending for schools statewide.

The local school tax represents the more controversial aspect of the program in Vermont. It makes up the 15.0 percent balance of the funds used to support schools in Vermont. This component of the funding structure essentially lumps all the participating towns into one large property tax base, and that it is designed in a way that while it permits local communities to decide on how much to spend, it assures that any two towns that have the same local per pupil spending will have the same rates.

The formula for this component of school funding permits school districts to increase spending beyond the $5,000 per pupil. Nearly 95 percent of the State's towns are spending more than the base amount. However, in doing so, those communities must share a portion of the funds raised with the rest of the State. In other words, the wealthier the community, the more they subsidize the rest of the state through their local tax base.

The bottom line of this program is that the wealthier communities contribute more into the shared pool of school resources than they receive. The wealthier the community, the larger the gap between what they contribute and what they receive from their local option property tax rate.

Vermont's system contrasts with what is envisioned in Rhode Island, where in Rhode Island, the Coalition would not support a statewide property tax rate that required the sharing of local property wealth.

Next Steps – Process in Fundamental

There is clearly a need to put the finer details in place on many aspects of the proposal. This includes establishing appropriate processes to arrive at the foundation per pupil amount, the appropriate categories and weights to recognize student need, and the design of a statewide property tax that ensures that no community's effective tax rates for schools increases during this period. Representatives from stakeholders and research capabilities need to be put in place with appropriate timelines to complete their work are steps necessary to ensure implementation of the foundation program.

Therefore, the RIPEC/Mayor Coalition recommends the following process to ensure all interests have an opportunity to engage in the process of establishing a new education funding system in Rhode Island. The Coalition recommends specific timelines for reporting findings and recommendations to ensure that the process moves forward.

1. A Joint Legislative Committee should be established to develop a proposal to implement a Basic Foundation School Support Program as outlined in the Educational Equity and Property Tax Relief Act. The Committee should consist of ten (10) members, five of which appointed by the Speaker of the House (one of which should be from the minority party), and five (5) members appointed by the President of the Senate (one of which should be from the minority party). The Speaker of the House and President of the Senate should each appoint a Committee Co-Chair. The Committee should be empowered to send legislation directly to the Chamber floor rather than through other legislative committees.

2. The Committee should issue a report outlining its findings and recommendations no later than December 1, 2005. The Commission should also issue an interim report and findings of its technical advisory groups described below no later than March 1, 2005.

3. The Committee Co-Chairs should appoint a Foundation Aid Technical Advisory Group, and a Property Tax Relief Technical Advisory Group. The Foundation Aid Technical Advisory Group and the Property Tax Relief Technical Advisory Group should be chaired by a Mayor of a major city or town in the State.

4. The Foundation Aid Technical Advisory Group should advise and assist the Committee in recommending Foundation Aid amounts by (a) identifying specific resources and least cost options to provide every child the opportunity to necessary educational opportunities to meet education performance standards, and (b) systematically calculating the amount of per pupil funding necessary to support an effective and efficient educational system.

   The Group should consider creating Task Forces to consider the needs of special populations, comprehensive education programs, and non-educational support activities. These Task Forces should be composed of experts in these areas. In developing a Foundation Aid Amount, the Group should consider, among other factors, pupil-teacher ratios, compensation, collective bargaining practices, technology investments, educational supplies, teacher training and professional development, student performance assessments, curriculum offerings and support services and all other cots and needs associated with the delivery of educational services.

5. The Co-Chairs of the Committee should appoint the members of the Foundation Aid Technical Advisory Group who represent school committees, school administrators, city and town officials, the Rhode Island Department of Education, teachers, parents and colleges and university staff knowledgeable about elementary and secondary education.

6. The Property Tax Relief Technical Advisory Group should advise and assist the Committee in identifying the options and the impact of replacing existing local education property tax levies that support the funding of elementary and secondary education with statewide resources.

7. The Co-Chairs of the Committee should appoint the members of the Property Tax Relief and Technical Advisory Group who should represent the city and town governments, school committees, the Rhode Island Public Expenditure Council and the Department of Administration.

8. The Legislature should make an appropriation to support the work of the Joint Legislative Committee in an amount not exceeding $200,000 beginning in FY 2005, and all State agencies and departments should be directed to cooperate with and provide all necessary information to the Joint Legislative Committee.

Issues to Consider

As policy-makers review this document, consideration should be given to how one would address the following school finance issues as the Education Equity and Property Tax Relief Act is considered. There are certainly many other questions to consider, but these offer a starting point for policymakers and taxpayers alike.

Goals and Objectives

- What are the goals and objectives of State education aid? (E.g. equity, adequacy, student performance, property tax relief) How do these goals interact and compete among each other?
- How will the proposal accomplish these goals, and what balance does it strike among them?
- What are the potential barriers to meeting these goals? (E.g. resources, intergovernmental relationships, cost control)
- How does one balance property tax relief with improvements in education programs?
- How can the State protect aid from economic erosion? (e.g. inflation, business cycle)

State-Local Relationships

- What is the appropriate State-local relationship for funding schools? (e.g. mandates, State controlled expenditure levels)
- How and should the State ensure that every school within school districts receives adequate resources?
- How much State control vis-à-vis local discretion is desired regarding school finance? (e.g. expenditure limits, contract provisions, conditions of work, etc)

Local Capacity and Student Need

- What should be included as part of the baseline per pupil expenditure to provide basic education services? (E.g. definition of adequate) how would this change over time?
- How should the foundation per pupil amount account for student need? (e.g. special education, economically disadvantaged, language needs)
- How should an education aid formula account for changing demographics? (e.g. shifts in enrollment, facility requirements)
- How does the State hold local schools and school districts accountable for expenditures and student performance?

Appendix A

Methods of Financing Public Education

Flat Grant
The flat grant method of funding schools is the simplest program to distribute state aid. This method typically distributes a fixed dollar amount per pupil to each school district. Local communities have the option of raising additional funds. In its simplest form, the flat grant program does not provide a mechanism for equity.

State Funded
Full state funding, as the name implies, has the state providing 100 percent of the funds. This type of program uses property taxes in that the state mandates and collects a uniform property tax rate, combines the proceeds with state funds, and distributes the funds on a per pupil basis. There would be no local discretion regarding additional expenditures. Only Hawaii uses the full state funding method.

Foundation Support
The majority of States use some form of foundation program. The principle behind a foundation program is to provide equitable treatment of property taxpayers in all cities and towns and focus equity on student outcomes and opportunities. These programs are designed to limit the portion of school budgets financed by property taxes and assure that the balance comes from state revenues.

Foundation programs are based on a local effort provision versus a unit (pupil) cost. Foundation programs typically cap the property tax for schools, with the local contribution set by a uniform, statewide property tax rate.

The financing of the system is based on student need. The total foundation cost per pupil is benchmarked to an agreed upon level. The State share is determined by the difference between the "minimum program" and the local effort. In other words, state support is based on the difference between what a local school district can generate at the statewide property tax levy for education and the estimated educational need.

Districts are typically given the option to exceed this minimum amount, but additional expenditures would be locally financed. However, over time this may act to increase the inequities in the system. Local communities who exercise a local option tax can increase per pupil spending while other communities may not because of small tax bases, high tax rates or low support for schools.

Power Equalization
Power equalizing programs are designed to balance the ability of local school districts to raise revenues for local education. Ideally, the State guarantees localities access to the same property tax yield for the same property tax rate. In essence equal property tax rates create equal per pupil expenditures. In other words, the wealthier the district, the fewer resources it receives from the state, and the poorer the district, the more resources it receives from the state.

Rhode Island used a form of power equalization until FY 1995.