

State of Rhode Island and Providence Plantations

Executive Summary



Fiscal Year 2012

Lincoln D. Chafee, Governor

Appendix D

Aid to Schools

Education Aid to Local Governments

Education Aid to Local Governments totals \$849.2 million in FY 2012, a \$21.0 million increase in total state funding relative to the FY 2011 revised budget, a 2.5 percent increase. Total Education Aid is defined to include local public schools, the School for the Deaf, Davies Career and Technical School, the Charter Schools, the Central Falls School District and the Metropolitan Career and Technical School, as well as support for the state share of teacher retirement and school Housing Aid.

Fiscal year 2012 represents year one of the new education aid funding formula. Beginning July 1, 2011, education aid to all districts, charter schools and state schools (Davies and the Met) will be formula based. The School for the Deaf is a special education program and the funding method will not change since it already has a state, federal and local share. Based on the principle that the money follows the student, the formula was developed with the following guiding principles: (1) Build a strong foundation for all children; (2) improve equity among districts and schools; (3) be transparent; and (4) be financially responsible.

The funding formula has been designed to distribute aid based on three key components:

- Core Instructional Amount – (\$8,333 per student in FY 2012) Derived from a regional average of the National Center for Education Statistics (NCES) expenditure data, the core instructional amount is based on cost studies from states that have been deemed by education researchers to be best practice financial models or states. In order to be informed, objective, and geographically sensitive, the formula uses a New England average cost to provide a balanced perspective on what Rhode Island should be spending to provide a high quality of education. The core instruction amount accounts for costs that have the greatest impact on a child's ability to learn, including instruction, instructional support, and leadership costs.
- Student Success Factor – (\$3,333 per student in FY 2012) Provides additional funding to support student needs beyond the core services listed above with the ultimate goal of closing student achievement gaps. Within the formula, each student is entitled to a 40% student success factor which is applied to the core instructional amount. This factor is also applied to PK-12 students who are eligible for free and reduced price lunch.
- State Share Ratio – After the core components have been determined, a state share ratio formula is applied to address two key questions: How to account for differences in the revenue-generation capacity of communities and how to allocate funding to communities based on the supports that students need. The state share ratio is dependent on district property values weighted for median family income and students eligible for free and reduced price lunch.

Data plays a crucial role in how education aid is distributed to districts, charter schools, Davies, and the Met. The funding formula will incorporate annual student data updates as well as the most recently assessed community property values and median family income data in order to ensure a solid methodology towards aid distribution. The formula establishes a platform for creating horizontal equity. It attempts to get a like amount of funding to children who have similar characteristics regardless of where they sit, which in turn gradually rebalances education funding to provide all districts a common level of purchasing power.

In addition, specific categorical funds for certain high-cost items were established outside the formula distribution: High cost special education, career and technical education, an early childhood Pre-K program, transportation for non-public and regional districts, as well as regional district bonuses. A Central Falls Stabilization Fund has also been created to assure that appropriate funding is available to support the district, due to concerns regarding local capacity.

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According to law, state stabilization funds are only paid upon transfer of a matching amount to the school district by the city. If Central Falls is unable to pay its share, the State will not provide funding under the stabilization fund.

Lastly, funding allocations will be phased in over ten years based on a transition model where in overfunded districts shall have a level decrease period, while underfunded districts shall have a level increase over a seven year period.

The following sections summarize changes to the various aid categories that comprise total FY 2012 Education Aid.

Distributed Aid

Distributed aid in FY 2012 will now reflect aid to both districts and charter schools as a result of the education aid funding formula. Please note that in prior years, charter schools have been displayed within the non-distributed aid category of the tables. Distributed education aid to districts increases by \$1.1 million while charter school aid increases by \$3.4 million in general revenue, relative to revised levels.

It is worthy to note that Rhode Island has been awarded \$32.9 million through a federal Education Jobs Fund Bill. The new education aid formula dictates the exact amount of funding each local education agency (LEA) shall receive per year. In order for each LEA to receive its full level of funding, the Education Jobs Fund will be used to offset any general revenue reductions that occur in FY 2012. Unlike the previous guidelines for State Fiscal Stabilization funding, where the State could dictate when LEAs drew down federal money, terms for this federal fund allow districts to withdraw funds at anytime up and until September 30, 2012. Therefore, \$27.0 million has been reflected in the FY 2011 Budget while the FY 2012 Budget reflects \$5.9 million.

State Schools

The State Schools- Davies Career and Technical School, Metropolitan Career and Technical School, and the Rhode Island School for the Deaf are collectively financed at \$30.8 million in general revenue, which constitutes a \$2.0 million decrease from the revised FY 2011 Budget. The State Schools have also been affected through a reduction in general revenue aid. However, as described above, some reductions in aid will be offset by the Education Jobs Fund. Davies will receive \$673,955, the Met will receive \$593,721, and the School for the Deaf will receive \$283,888 in additional federal funding. Please note that Davies and the Met will also fall under year one of the funding formula.

Non-Distributed Aid

In FY 2012, charter school aid, as described above, will now be reflected in the distributed aid category of the education aid tables. Also new as a result of the education aid funding formula are "categorical funds". In FY 2012, \$1.1 million is allocated for transportation costs, \$700,000 for a Pre-K early childhood demonstration program, and a regionalization bonus of \$851,899. Funding will be delayed in FY 2012 for all additional categorical funds created in the education formula legislation, including a high cost special education fund, a career and technical education fund and a Central Falls stabilization fund.

General revenue funding for the Telecommunications Access fund is eliminated in FY 2012, to be replaced with a broadening of the fee charged only off land-lines to include wireless phones as well. Also eliminated in FY 2012 is the Textbook Expansion fund, used to finance the acquisition of textbooks for non-public school students.

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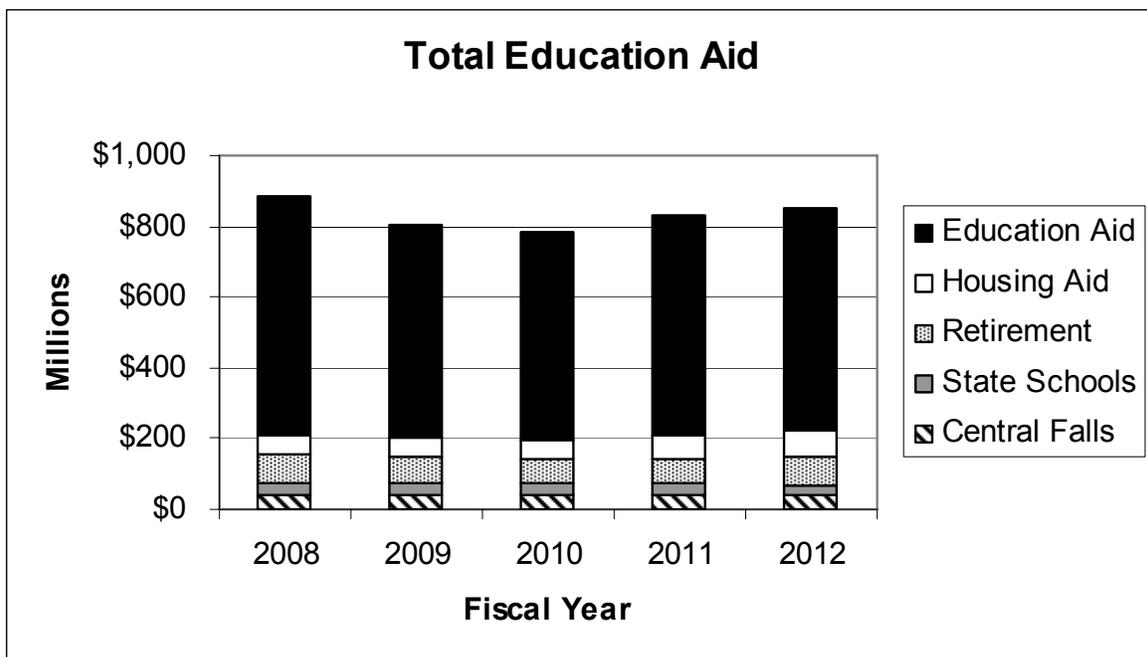
Other Aid

The FY 2012 Budget also includes increases in other aid of \$17.5 million; a \$4.5 million increase for school housing aid reimbursements and a \$13.0 million increase in state contributions for teachers' retirement.

FY 2012 Education Aid Increases (Decreases) From the Revised FY 2011 Budget

- Standard Aid: \$4,669,993
- Group Home Funding: (\$285,000)
- Central Falls School District: (\$3,289,352)
- Textbook Expansion: (\$241,490)
- Charter School Aid: \$3,359,278
- Progressive Support and Intervention: (\$24)
- Professional Development: (\$248,750)
- Telecommunications Access (348,250)
- Transportation Categorical: \$1,087,840
- Regionalization Bonus: \$851,899
- Metropolitan Career and Technical School: (\$1,044,041)
- School for the Deaf: \$42,822
- Davies Career and Technical School: (\$1,008,703)
- Teachers' Retirement: \$13,017,777
- School Housing Aid: \$4,484,171

The following graph displays total school aid from FY 2008 to FY 2012. The "Education Aid" component is comprised of all aid categories under the standard Education Aid program. This includes, but is not limited to, General Aid, Targeted Aid, Charter School Aid, Progressive Support and Intervention, and the Student Investment Initiatives. Other components of total aid include: State Contributions for Teachers' Retirement; School Housing Aid; Central Falls School District; and State Schools (Davies, Deaf, and the Metropolitan School).



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Housing Aid

The School Housing Aid Program reimburses a community for eligible construction expenditures beginning in the fiscal year after the project is completed. The reimbursement rate is based on the cost of the project over the life of the bonds issued for the project. The Commissioner and the Board of Regents review each local community's request for reimbursement through the program. Pursuant to recent legislation, the Department of Education and the Board of Regents promulgated new regulations governing both this process as well as the oversight of all projects eligible for School Housing Aid. In support of this initiative, the Governor recommended and the Generally Assembly approved the addition of three FTE to the Department of Elementary and Secondary Education in FY 2008.

It should be noted that although the reimbursement reference for completed projects is one year, there is a two-year reference for formula factors. For example, FY 2010 allocations were based on 2008 wealth and enrollment levels. The housing aid share ratio calculation is based on a district's income adjusted per-pupil property wealth compared to aggregate state per-pupil property wealth. The average state housing aid share ratio is thirty-eight percent, adjusted to ensure a minimum of thirty percent in each community. Beginning FY 2012, the minimum reimbursement to each community shall increase by five percent each year until a forty percent minimum share ratio has been achieved. A four percent bonus is awarded when a minimum of seventy-five percent of a project's cost is for energy conservation, asbestos removal, or handicapped access. Regional districts receive a two percent bonus for each regionalized grade for new construction projects, and an additional four percent bonus for renovation projects.

Reimbursement is based on total expended project cost, plus related bond interest cost, not on the amount of the original bond issuance. For example, if a community issued \$6.5 million for ten years for a capital improvement to a school, but only spent \$6.0 million, the department would reimburse the community for the State's appropriate share of the \$6.0 million spent on the completed project, plus the bond interest payments over a ten year period. This statute was amended to include the use of lease revenue bonds, financial leases, capital reserve funding, and similar financial instruments to finance school construction. Communities used this amendment to receive project reimbursements commencing in FY 1999. The FY 2004 Appropriation Act amended the housing aid statute to require that all future school construction debt be issued through the Rhode Island Health and Education Building Corporation.

The revised FY 2011 and FY 2012 Budget propose general revenue expenditures of \$68.0 million and \$72.5 million, respectively, for the School Housing Aid program.

Teachers' Retirement

RIGL 16-16-22 requires the State to make contributions to the teacher retirement system in Rhode Island. The State shall contribute a percentage of the employer's share, with the school districts contributing the balance. The State's share has varied over the years based upon the total actuarially determined rate of payroll, but since FY 1993 it has been fixed at 40 percent, with the municipalities contributing 60 percent. Each district receives the same percentage, regardless of district wealth.

The State deferred the State's contributions to Teachers' Retirement in both FY 1991 and FY 1992. Most municipalities also deferred the local portion of teacher retirement contributions for this period. The state deferrals, valued at \$22.4 million in FY 1991 and \$22.2 million in FY 1992, will be

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financed over twenty years, as will the local deferral. The annual calculation applied to the state contribution to Teachers' Retirement includes an adjustment to accommodate the deferral liability.

Furthermore, the municipalities of Burrillville, East Greenwich, Little Compton, New Shoreham and North Smithfield did not participate in the 1990 early retirement window for teachers and therefore contribute a slightly smaller percentage of teachers' salaries.

Contribution Rates for Teachers' Retirement Fund

| | <u>Actuarial Contribution Rate of Payroll</u> | <u>Employer Share</u> | | | <u>Teacher Share</u> |
|------|---|-------------------------|-------------------------|----------------------|--------------------------|
| | | <u>Local (60%)*</u> | <u>State (40%)*</u> | <u>Sub Total</u> | |
| 1999 | 21.02% | 6.62% | 4.90% | 11.52% | 9.5% |
| 2000 | 24.14% | 8.43% | 6.21% | 14.64% | 9.5% |
| 2001 | 21.51% | 6.86% | 5.15% | 12.01% | 9.5% |
| 2002 | 19.45% | 5.73% | 4.22% | 9.95% | 9.5% |
| 2003 | 21.47% | 6.93% | 5.04% | 11.97% | 9.5% |
| 2004 | 23.22% | 7.99% | 5.73% | 13.72% | 9.5% |
| 2005 | 24.34% | 8.72% | 6.12% | 14.84% | 9.5% |
| 2006 | 25.97% | 9.72% | 6.75% | 16.47% | 9.5% |
| 2007 | 29.14% | 11.62% | 8.02% | 19.64% | 9.5% |
| 2008 | 31.51% | 13.04% | 8.97% | 22.01% | 9.5% |
| 2009 | 29.57% | 11.89% | 8.18% | 20.07% | 9.5% |
| 2010 | 29.57% | 11.89% | 8.18% | 20.07% | 9.5% |
| 2011 | 18.75% | 11.25% | 7.76% | 19.01% | 9.5% |
| 2012 | 22.06% | 13.23% | 9.09% | 22.32% | 9.5% |

* Adjusted for deferral liability

The following table displays the state contributions to Teacher Retirement since FY 1999. The State Retirement Board uses the districts' retirement contribution data to calculate the state obligation each month, and contributions are accrued to the appropriate fiscal period.

State Contributions for Teacher Retirement

| <u>Fiscal Year</u> | <u>State Share</u> |
|--------------------|--------------------|
| 1999 Actual | \$30,202,943 |
| 2000 Actual | \$40,719,407 |
| 2001 Actual | \$35,365,234 |
| 2002 Actual | \$30,652,207 |
| 2003 Actual | \$38,242,690 |
| 2004 Actual | \$45,039,269 |
| 2005 Actual | \$48,503,125 |
| 2006 Actual | \$54,537,733 |
| 2007 Actual | \$70,286,753 |
| 2008 Actual | \$83,028,510 |
| 2009 Actual | \$73,592,722 |
| 2010 Actual | \$68,550,306 |
| 2011 Revised | \$69,653,293 |
| 2012 Recommended | \$82,671,070 |

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Explanation of Tables- by Category and LEA

The following two tables display education aid first by category, and then by apportionment among the state's local and regional education agencies (LEAs). "Distributed LEA Aid" consists of the various categories of aid that are directly distributed to school districts on a regular (usually monthly) basis, such as General Aid in FY 2011 and Formula Aid in FY 2012, Targeted Aid, and funds for Student Equity. For completeness, financing of the Central Falls School District (plus an allocation for indirect Charter School Aid on the LEA table only up until FY 2011) is also displayed in this section. "State Schools" include the Metropolitan School, Davies, and School for the Deaf. "Non-Distributed Aid" includes several categories of aid that are either utilized at the departmental level or are not distributed regularly to school districts. "Other Aid" consists of allocations for School Housing Aid and state contributions to the Teachers' Retirement Fund. For the purposes of these tables, direct aid to charter schools is categorized as non-distributed, up until FY 2011. Starting FY 2012, direct aid to charter schools is categorized as distributed aid as a result of the funding formula.