Issue Brief Introduction

The attached brief was developed to introduce and frame key issues under discussion by the Funding Formula Working Group.

These briefs do not address every issue that affects public education funding. By focusing on concise introductions to important and complicated topics, some detail and nuance has been intentionally omitted.

We welcome your feedback on these briefs or on any other topic related to Rhode Island's Funding Formula, which you may submit to edfundingri@ride.ri.gov.

Issue Brief #1: Fixed and Marginal Costs

Issue Summary

This brief addresses the relationship between the cost of running districts and schools and the funding received from enrollment. Under Rhode Island's "funding-follows-the-student" formula design, state (and in some cases, local) share is a function of enrollment: the state contributes toward every full seat and contributes nothing toward empty seats. This raises two important issues: (1) fixed costs, and (2) marginal costs/savings. Both of these issues affect traditional school districts and public schools of choice.

Fixed costs: Districts and schools have some financial obligations that are "fixed" and do not vary much by small changes in enrollment. Common examples include heating, lights, grounds maintenance, and accounting services. Under the current formula, when a student leaves a school, the district loses the state (and, in the case of public schools of choice, local) share of funding for that student. For fixed costs, the loss of revenue doesn't result in any appreciable decrease in expenses.

Marginal cost/savings: While fixed costs can't be adjusted to match changes in revenue, marginal costs can be adjusted. However, not all marginal costs can be adjusted at the same rate. Some marginal costs can be managed to match enrollment (like consumable workbooks and meals). However, some cannot be managed to match enrollment changes (like teachers and building administrators).

Unlike fixed costs, marginal costs can work to the advantage and disadvantage of schools and districts. In some cases, the loss in revenue associated with the loss of a student cannot be met by an equivalent reduction in expenses; this produces a (marginal) loss. However, in other cases, the revenue gained through the addition of a student is greater than the costs of serving that student; this produces a (marginal) gain.

Rhode Island Context and Data

Fixed costs: One of the most common and well-established ways to quantify fixed costs is through a federal method of defining and combining them and expressing them as a percentage. Based on this method, it is reasonable to estimate that districts' fixed costs range from approximately 3% – 10%. This method includes an array of expenses including utilities, maintenance, retiree health and other legacy costs, etc.

Marginal costs: It is difficult to precisely calculate the marginal costs or savings on student seats. Calculation of this value is clouded by three issues: (1) the rate and urgency with which schools and districts respond to enrollment changes, and (2) the fact that empty seats can appear and disappear at any time (and sometimes multiple times) during the school year, and (3) marginal "cost" is not the same as lost revenue.

National Practice and Examples

Several other states use a "funding follows the student" approach to their formula; across these states, there are two primary adjustments made to address fixed and marginal costs/savings:

1. States reimburse districts for a portion of the lost revenue when students move to public schools of choice.

2. States allow districts to withhold a flat percentage from their per-pupil “tuition” to public schools of choice.

State Reimbursement Example: Massachusetts:
Massachusetts reimburses the sending district 100% of per pupil revenue the first year and 25% of the per pupil revenue every year for five years for each additional charter student. This transition support is triggered by increase in charter school enrollment.

Withheld Flat Percentage Example: New Jersey
New Jersey law requires that the per-pupil amount paid to charter schools, from districts, not exceed the program budget per pupil for the specific grade level in the district in which the charter school is located. Charters are required to at least receive 90% of the traditional school district per-pupil funding.