Four essential principles for Rhode Island’s funding formula

A sound funding formula can unlock—and is unlocking—Rhode Island’s potential for educational excellence. When the General Assembly passed legislation creating a funding formula in 2010, our system of school finance took a giant leap forward. As we consider next steps, research and common sense tell us that, while there may be room for refinements, there are four principles to which our formula must adhere.

1. The formula must remain student-centered.
The 2010 formula places students and their needs at the heart of the funding system. Maintaining this standard will require Rhode Island to:

- **Continue funding local education agencies by average daily membership, so LEAs receive dollars for the students they serve.** This commonsense approach places Rhode Island among the majority of states that fund LEAs by ADM or enrollment.¹

- **Continue funding students based on educational need.** Research shows that students who start out with disadvantages often need additional resources to reach their potential.² A majority of states weight student funding by income level (like Rhode Island), English-language learner status and disability status.³ If Rhode Island adjusts funding for these groups, it must act strategically to avoid creating perverse incentives that could cause LEAs to over-identify students as disabled or ELL; that is why the state created a categorical funding stream for students with disabilities in 2010, rather than adding a weight to the per-pupil formula.⁴ Still, funding for student need is important and prevents funding inequities that were commonplace before implementation of the new formula (for example, in 2008, Gloucester received $240 more per pupil in state aid than East Providence, despite having half the percentage of students eligible for free and reduced-price lunch).⁵

- **Continue funding students, not programs.** Sending dollars to LEAs as per-pupil funding gives districts the flexibility to adapt to changing demands and to innovate and provide services that best meet their students’ needs.⁶ As schools move toward personalized learning and implement new instructional delivery models, funding flexibility is even more critical. Rhode Island is a national leader in flexible, student-centered funding, and other states are following suit. Between 2008 and 2013, 29 states decreased their number of restricted, categorical funding programs, while only 14 states increased the number of these programs.⁷ California is an especially strong example: In 2013, the state streamlined its funding formula in a fashion very similar to Rhode Island, eliminating dozens of categorical funding streams and funneling those dollars instead toward flexible, student-based funding.⁸

¹ Rhode Island General Laws 16-72-3.
2. Money must follow the student.

If students and their needs are at the heart of the funding system, then funding should follow students to the public schools of their choice, including traditional public schools, public charter schools, state schools and career and technical education centers. Experts agree that for parents to have genuine school choice, funding that follows the child is critical. Moreover, it creates the right incentives for schools. When money follows students, not only do schools have an incentive to enroll and retain students, they have a powerful incentive to educate children from disadvantaged backgrounds who bring additional dollars to their schools.

Rhode Island is not alone in ensuring that money follows students. In California, public charter schools are funded the same way as traditional school districts. This is also the case in Florida. In Colorado, 100 percent of per-pupil operating revenue is passed through to charter schools, although the authorizing entity may keep a small percentage for administrative expenses. Several other states have similar provisions that ensure portable, student-centered funding.

3. The formula must be equitable.

Per-pupil funding that accounts for student needs and follows students to the public schools of their choice has gone a long way toward ensuring Rhode Island has an equitable funding system. The state share ratio in our formula, which accounts for districts' revenue-generating capacity and share of low-income students when calculating state education aid, also enhances equity; many other states include a similar "equalization" component in their funding formulas. Data from 2012 show that the highest poverty and lowest poverty districts in Rhode Island receive roughly the same state and local per-pupil revenues, and this balance should become more progressive as the formula is fully phased in by 2020.

If there are important differences in student need that are not currently captured in the funding formula, the formula might become more equitable by including weights for those students. Furthermore, if there are legally mandated differences in spending between districts and public charter schools, the formula should be adjusted to capture those differences (although a better option for lawmakers is to reduce the number of legally mandated expenses faced by districts). Research shows that most district expenditures are, in fact, optional: Many expense accounts that districts describe as fixed costs are actually variable costs and can shrink or grow over short periods of time. As long as districts have adequate warning before changes in revenue occur, they should be able to adjust most of their costs accordingly.

More should also be done to ensure that facilities funding is equitable. Public charter schools still receive a flat facilities reimbursement rate of 30 percent through the housing aid program, while traditional school districts receive reimbursement rates between 35 and 92.7 percent. Achieving full funding equity will require addressing this disparity.
4. The formula must be simple, transparent and predictable.
Rhode Island's current funding formula is simple and easy to understand: The formula itself is not an overly complex mathematical equation, weightings and categorical grants are strategically limited and funding is based on the number of students served calculated by the Average Daily Membership. It is also transparent, with all information that LEA staff and school principals need to know readily available on the RIDE website, including the Uniform Chart of Accounts.

**Simple:** If weights are added for new student groups, the number of categories should remain limited to preserve simplicity. Categorical funding programs should also be limited as they are today.

**Transparent:** The Uniform Chart of Accounts, in full detail, should remain publicly available and expand to include school-level budgets.

**Predictable:** Administrators can easily access and understand the funding formula and use it to accurately predict how much state funding they will receive to support the education of their students.

This combination of simple plus transparent ensures that the formula is predictable for LEAs and school leaders as they plan their district and school budgets. Experts across the country agree that simplicity, transparency and predictability are key features of exemplary state funding systems.¹⁸

California offers a good example of a simple and transparent formula that is predictable for LEAs and school leaders: Its Local Control Funding Formula, enacted in 2013, provides weights for low-income children, English-language learners and children living in foster care. It also consolidates almost all categorical funding programs into flexible per-pupil aid.¹⁹ Like Rhode Island's formula, the Local Control Funding Formula allows administrators to accurately assess how much money a student will bring to their districts and schools.

If changes are made to the Rhode Island funding formula, we must ensure that the final product remains grounded in these four key elements.

---
