

Issue Brief 8: Property Taxes and School Finance

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 8: Local Education Aid and Local Share

Issue Summary

This brief introduces three important topics related to local education aid and share under Rhode Island's Funding Formula:

- (1) The local appropriation for education;
- (2) Proportion of local, state, and federal funding in Rhode Island districts; and
- (3) The method used to calculate local share in Rhode Island schools.

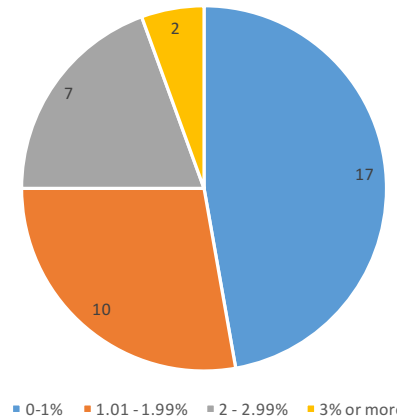
Rhode Island Context and Data

In Rhode Island, cities and towns are the only entities authorized to levy taxes for the purposes of funding public education. Education funding is only one part of the many expenses funded through local property taxes: fire and police departments, public works among many other services are also funded through taxes. Each year, cities and towns work with their school department and school committees to set the school budget, which, in turn, determines the local appropriation for education.

Local Appropriation for Education

Cities and towns can increase taxes to increase education aid, but they also are subject to a 4% ceiling on local property tax increases.¹ For these reasons and more, there have been very limited increases to local education appropriation during the years since the Funding Formula has gone into effect. Figure summarizes the distribution of city and town based on percentage of average annual local education aid increase over the past three years. In it, you can see that 17 of the 36 cities and towns have averaged between a 0% and 1% annual increase during the years since the Funding Formula was implemented. Of the 27 cities and town with average annual increases below 2%, 20 of them have been "gainers" in the funding formula transition.

Figure 1: Distribution of Districts Based on Average Annual Increase in Local Appropriation for Education, 2012 - 2014



As a point of comparison, during this same period, the consumer price index (the most common and well-regarded escalator for inflation) went up by 1.7%, 1.5%, and .08% in 2012, 2013, and 2014 respectively.

Calculation of the per pupil local share

In its simplest form, the local per pupil share is the local appropriation to education divided by the number of public school students.² RIDE calculates the local per pupil for every district through formula that begins with the deduction of capital expenses, debt service, and charter school tuition. These items are deducted to arrive at an equalized local appropriation, which is then divided by the public school enrollment.

Maintenance of Effort

Maintenance of Effort (MOE) is a widely used and well-established method to ensure that funding levels remain relatively constant from year to year. MOE requirements also create a safeguard that prevent funded organizations

¹ This 4% ceiling is a combined ceiling and covers all necessary increases in the municipal budget.

² The primary reason to calculate a local *per pupil* share is to calculate the funding that must follow schools to public schools of

² The primary reason to calculate a local *per pupil* share is to calculate the funding that must follow schools to public schools of choice.

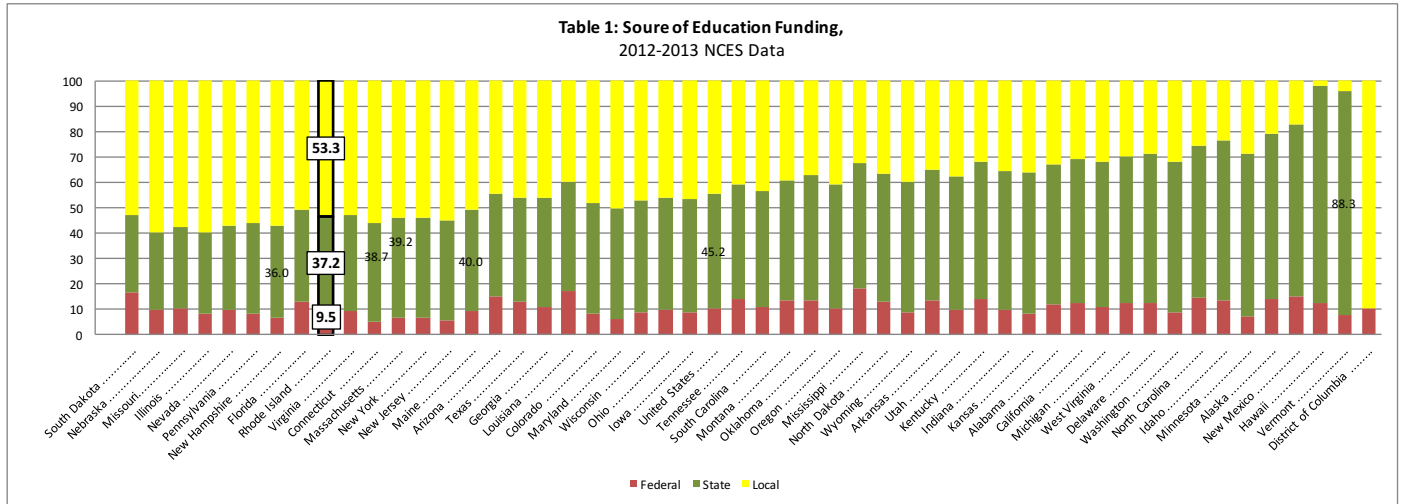
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from shifting funding away from critical areas, especially when the state or federal government is providing funding to help them meet their obligations.

Rhode Island's MOE requirements require merely that communities not spend *less* than they spent in the previous year, except in instances in which there is a documented decline in enrollment or one-time expense.

National Practice and Examples

Table 2 displays the local contributions of various districts since the implementation of the existing formula.



Many states have reduced their reliance on local taxes, and increased the percentage of their educational funding that comes from statewide sources.

- In 15 states, including Rhode Island, local property taxes (and other local sources) represent more than 50 percent of total school funding.
- In eight states, statewide funding now represents more than 60 percent of total education funding.
- In Vermont more than 85 percent of funding for education comes from statewide sources.