

## K-12 Education Financing in Rhode Island Executive Summary

---

In 2005, a joint legislative commission will begin meeting to evaluate Rhode Island's system for funding K-12 public education. Specifically, the committee is charged with establishing a formula for distributing state education aid and evaluating options for property tax reform. Its findings are expected by October 2, 2005. The commission represents an important opportunity to undertake comprehensive reform of education financing and property taxes in Rhode Island.

Rhode Island relies heavily on property taxes to finance the public school system.

- Rhode Island ranks fourth nationally in dependence on local property taxes to finance primary and secondary education
- Public schools raise over 60 percent of their budgets from local property taxes
- In FY 2003, the state government provided only 37.5 percent of Rhode Island's K-12 school budget, compared to a national average state share of 49.6 percent

Rhode Island's property taxes are both high and regressive.

- In FY 2002, Rhode Island's property tax burden was the 7<sup>th</sup> highest in the nation.
- The lowest-earning 60 percent of Rhode Island households, which includes many of the state's renters, devote an average 4.4 percent of their income to property taxes.
- The highest earning 1 percent pay only 2 percent of household income in Rhode Island property taxes.

Poor urban communities have greater student needs and a lower tax base with which to meet these challenges and therefore must tax themselves at higher rates than their suburban counterparts. The result is that residents of lower-income school districts pay a relatively high share of their income to fund local schools. To the degree that a state relies upon local property taxes to finance primary and secondary education, its tax burden becomes more regressive and its school funding more inequitable.

State education aid offsets these inequities to some degree. Because 95 percent of state education aid

flows through programs sensitive to tax effort and student need measures, including poverty rates, median income, and school lunch eligibility, the share of funding attributable to the state is strongly correlated with these measures. State aid rises sharply with higher family poverty rates and school lunch eligibility, and falls with higher median income in a community.

However, state funding has been unpredictable and subject to occasional retrenchment. From 1978 to 1988 nearly 3 in 4 new education dollars in Rhode Island came from the state government. This trend was abruptly reversed in the early 1990s in the wake of an economic recession, banking crisis, and subsequent fiscal shortfall. From 1991 -1992, the state cut its educational aid by 11 percent or \$28 million. From 1992 - 1998, less than 1 in 4 new education dollars derived from the state. Since 1998, increases in state aid have lagged behind total education spending, so that the state's share has fallen slightly from pre-1995 levels.

Advocates for low and moderate income Rhode Islanders should welcome the opportunity to reform Rhode Island's school finance system. However, any significant alteration in Rhode Island's system of K-12 funding will impact not only the quality and equity of the state's schools, but also the availability of revenue for other important programs. It is vitally important that reforms improve educational equity, the equity of Rhode Island's tax system and the quality of life for the state's poorest children. Specifically, the Poverty Institute urges that:

- Increased education spending by the state should not be promised at the expense of adequate funding for other vital program expenditures, but should be based upon a stable and enhanced state revenue stream.
- Any proposals to reform property taxes must also address inequities in education funding.
- Property tax reform should result in a system that is less regressive than the current one and that provides some mechanism for sharing the state's property wealth among all residents.
- Any new formula for distributing state education funds should be at least as effective in targeting funds to communities with poorer children as current state aid programs.