



SENATE FISCAL OFFICE
REPORT

FY2013 MUNICIPAL AID

STATE AID TO CITIES AND TOWNS

NOVEMBER 5, 2012

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Introduction

Rhode Island municipalities derive the majority of their revenues from property taxes. In FY2012, municipalities collected approximately \$2,210.7 million in property taxes, which is 16.4 percent more than the State collects in personal income and sales taxes combined (Source: RI Department of Revenue). Data presented by the Tax Foundation indicates that the average property tax bill was \$3,618 on a median home value (\$267,100) in the State in FY2009. This is 88.7 percent higher than the national average of \$1,917, on a median home value of \$185,200. Recent data (2009) also shows Rhode Island ranking 7th highest in the United States in terms of property tax burden as measured by property tax collections per \$1,000 of personal income (Source: U.S. Census Bureau; Tax Foundation calculations).

State aid to local government is designed in part to provide an alternative revenue source for communities as well as to help support selected programs operated at the local level. State aid to local governmental entities is provided for a range of purposes, such as supporting the cost of conducting statistical updates of property values and providing funding for school districts to construct school facilities.

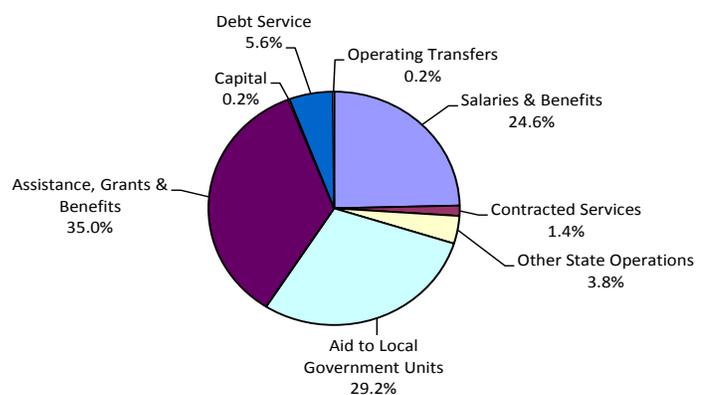
There have been a number of efforts to provide direct and indirect property tax relief to taxpayers in Rhode Island. The State has completed the phase-out of local inventory taxes and erased the excise tax on the first \$500 of motor vehicle value. In 2006 the General Assembly passed S-3050 entitled “Relating to Taxation – Property Taxes”, which limits local property tax levy growth to no more than 4.0 percent in FY2013. However, between FY2008 and FY2013, direct state aid to municipalities has decreased from \$240.1 million to \$64.6 million, or 73.1 percent. Rhode Island is not alone in decreasing state aid, but has done so more aggressively than the national average. A June 2012 report issued by the Pew Charitable Trust, entitled “The Local Squeeze – Falling Revenues and Growing Demand for Services Challenge Cities, Counties, and School Districts” states that nationally, state aid to municipalities decreased by \$12.6 billion or 2.5 percent, (\$498.2 billion to \$485.5 billion) from 2009 to 2010, requiring municipalities to shrink their work force or cut back on services.

Rhode Island’s FY2013 total State budget of \$8,099.9 million includes \$1,129.9 million in local aid to cities and towns, of which nearly \$962.4 million is general revenue. This represents 13.9 percent of all fund spending, but 29.2 percent of general revenue spending.

There have been a number of recent changes in state aid to local government. Major changes include:

- Eliminating funding for the General Revenue Sharing program.
- Decreasing the required motor vehicle excise tax exemption from \$6,000 to \$500, along with decreasing funding for reimbursements from \$117.2 million in FY2010 to \$10.0 million in FY2011 and beyond.
- On November 17, 2011, the General Assembly passed the Rhode Island Retirement Security Act (RIRSA), which is estimated to save municipalities about \$100.0 million in FY2013 through reforms to the teacher retirement system and Municipal Employees’ Retirement System (MERS). The savings are estimated to grow to \$1.0 billion over the next two decades. RIRSA also includes language that addresses the retirement

FY2013 General Revenue Expenditures



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security of locally-administered pension funds. According to the state Auditor General, the 36 locally-administered plans have a reported unfunded liability totaling approximately \$2.1 billion and a funding level of only 40 percent. Unlike the state-administered system, which is governed by statute, most of these local plans are determined by collectively-bargained contracts.

This report is intended as a reference guide to major state aid programs, providing a summary of each major local aid program, the methodology and distribution of aid, and a summary of the education aid formula.

Municipal Aid

The State provides funding to municipalities in two forms: Direct Aid and Indirect Aid. Direct Aid is money which has been appropriated by the General Assembly from specific programs in the State's annual budget. This money is then distributed by the Department of Revenue to the cities and towns based on formulas prescribed in State statutes. Indirect Aid, also referred to as "Pass-Through" Aid, is money received by the Division of Taxation from outside sources such as hotels, restaurants, and communications companies, and distributed to cities and towns. It is not appropriated during the budget process, and therefore is not included in the budget. In the case of Public Service Corporation Tax, the funds are distributed based on community population relative to the State's population. Meal and Beverage taxes and Hotel taxes are distributed to the communities from which the tax revenue originated.

DIRECT MUNICIPAL AID

The State gives aid directly to cities and towns for purposes other than public education in the form of municipal aid. Municipal aid has evolved over time, from programs where the State has provided resources to support communities with a significant presence of non-taxable property to programs designed to share the State's revenue base. Since FY2006, total State municipal aid has decreased from \$266.4 million to \$103.9 million in FY2013 – a net decrease of \$162.5 million, or 61.0 percent, during this 7-year period.

The majority of municipal aid had been appropriated through the tax relief program under the Motor Vehicle Excise Tax Program and the State's General Revenue Sharing Program. In FY2009, \$135.4 million was provided by the State for the Motor Vehicle Excise Tax Program. However, in FY2010, this amount was reduced to \$117.2 million, and in FY2011, FY2012, and FY2013, this amount is reduced to \$10.0 million. Since FY2010, the General Revenue Sharing program has not been funded.

Program	Municipal Aid FY2011 - FY2013							
	FY2011 Actual	FY2012 Enacted	FY2012 Revised	Change from Enacted		FY2013 Enacted	Change from Enacted	
Payment in Lieu of Taxes	\$27.6	\$33.1	\$33.1	\$0.0	0.0%	\$33.1	\$0.0	0.0%
Distressed Communities	10.4	10.4	10.4	0.0	0.0%	10.4	0.0	0.0%
Motor Vehicle Excise Tax	10.0	10.0	10.0	0.0	0.0%	10.0	0.0	0.0%
Central Falls Stabilization	-	-	2.6	2.6	0.0%	-	0.0	0.0%
State Aid to Libraries								
Grant-in-Aid	8.7	8.7	8.7	0.0	0.0%	8.7	0.0	0.0%
Library Construction	2.5	2.8	2.8	0.0	0.0%	2.5	(0.3)	-10.7%
Total Direct Aid	\$59.2	\$65.0	\$67.6	\$2.6	4.0%	\$64.7	(\$0.3)	-0.5%
Public Service Corporations Tax	\$11.3	\$11.8	\$11.8	\$0.0	0.0%	\$12.7	\$0.9	7.6%
Meals & Beverage Tax	19.5	19.3	19.6	0.3	1.6%	20.0	0.7	3.6%
Hotel Tax	5.9	5.6	5.5	(0.1)	-1.8%	5.5	(0.1)	-1.8%
Airport Impact Fees	\$1.0	1.0	1.0	0.0	0.0%	1.0	0.0	0.0%
Total Indirect Aid	\$37.7	\$37.7	\$37.9	\$0.2	0.5%	\$39.2	\$1.5	4.0%
Total Aid	\$96.9	\$102.7	\$105.5	\$2.8	2.7%	\$103.9	\$1.2	1.2%

\$ in millions

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Payment in Lieu of Tax Exempt Property (PILOT) – RIGL 45-13-5.1

The PILOT program was established in 1986 to reimburse cities and towns for property taxes that would have been due on real property owned by nonprofit higher education institutions and nonprofit hospitals if it were subject to taxation. In 1988 the program was expanded to include any State owned and operated hospital, veterans’ residential facility, or correctional facility occupied by more than one hundred (100) residents, which is exempted from taxation by State law. The policy behind the implementation was to offset the costs to the community for providing public safety or other ordinary services to the properties and facilities covered by the statute.

Fiscal Year	PILOT Funding Trends		
	Total Funding	% Change	% Reimbursed
2002	\$18.1	3.0%	27.0%
2003	18.2	0.1%	24.8%
2004	21.7	19.6%	27.0%
2005	22.7	4.6%	26.3%
2006	27.0	18.7%	27.0%
2007	27.8	2.9%	27.0%
2008	27.8	0.0%	25.4%
2009	27.6	-0.7%	25.2%
2010	27.6	0.0%	23.8%
2011	27.6	0.0%	21.1%
2012	33.1	20.0%	23.4%
2013	33.1	0.0%	21.4%

\$ in millions.

Distribution: The original reimbursement rate was 25.0 percent of all tax that would have been collected had the property been taxable. In 1997, the General Assembly increased the reimbursement rate to 27.0 percent, effective in FY1998. The baseline assessed property values for this program have grown from \$1,969.2 million in 2000 to \$4,993.3 million in 2013.

Nineteen communities currently receive funding from this program. Providence receives \$23.5 million (70.9 percent) of the \$33.1 million appropriated. This is due to reimbursements for 6 hospitals (Butler, Miriam, Rhode Island, Roger Williams, St. Joseph’s and Women & Infants) and 4 private colleges (Brown, Johnson & Wales, Providence College, and Rhode Island School of Design) located within the City. Cranston receives \$4.6 million due mainly to the location of the Pastore Center within that City.

Funding: Since FY2008, actual State appropriations for the PILOT program have equaled less than 27.0 percent of all tax that would have been collected had the property been taxable. In FY2013, the budget includes \$33.1 million, level funding from the FY2012 Budget as Enacted, and an increase of \$5.5 million over the FY2011 Budget as Enacted. In effect, this represents 21.4 percent of all taxes that would have been collected had the property been taxable.

Distressed Communities Relief Program – RIGL 45-13-12

Established in 1990, this program provides State assistance to Rhode Island communities with the highest property tax burdens relative to the wealth of taxpayers. Four indices are used to determine eligibility:

- Percent of tax levy to full value of property
- Per capita income
- Percent of personal income to full value of property
- Per capita full value of property

Each community is ranked by each distress index and any community that falls into the lowest 20.0 percent of at least three of the preceding four indices is eligible to receive assistance (15.0 percent prior to FY2005). Since the inception of the program, nine communities have received funding through this program: Burrillville, Central Falls, Cranston, East Providence, North Providence, Pawtucket, Providence, West Warwick, and Woonsocket.

Distribution: The funds are distributed to eligible communities based on the community’s tax levy relative to the tax levy of all eligible communities. Any newly qualifying community or community returning to the program will receive 50.0 percent of the funding it would be entitled to in the first year, and then the full amount thereafter. The remaining 50.0 percent would be distributed to the other distressed communities to soften the fiscal impact of the new eligible community. Any community that no longer qualifies will receive 50.0 percent of the prior year’s allocation for the first year, and no funding thereafter.

Funding: The Distressed Communities Relief Program was originally funded with a \$5.0 million annual contribution from the Video Lottery Terminal revenue and a portion of State revenues collected from the real estate conveyance tax. Beginning in FY2008, funding for this program came from State appropriations and a 0.19 percent share of all video lottery net terminal income.

For FY2009 and FY2010, \$10.4 million was appropriated to seven (7) qualifying municipalities. It should be noted that the allocation to municipalities is based on current distressed community index rankings.

For FY2011, \$10.4 million was appropriated for Distressed Communities Relief, with the allocation to eight municipalities based on qualifying data. East Providence became eligible for Distressed Community Relief, and North Providence was no longer eligible. By statute, East Providence received an allocation of 50.0 percent of what it would have received in FY2011, and North Providence received an allocation of 50.0 percent of what it received in FY2010. In FY2012, East Providence received 100.0 percent of its allocation, and North Providence did not receive any funding.

For FY2012, \$10.4 million was appropriated and distributed to eight (8) qualifying municipalities. East Providence and Burrillville were not eligible for this funding in FY2012, and therefore only received 50.0 percent of what they received in FY2011. Conversely, the Town of North Providence once again met eligibility requirements for funding.

For FY2013, the City of Cranston became eligible for the Distressed Community Relief program. As a newly qualifying community, the City will receive 50.0 percent of the funding it would be entitled to in the first year, and then the full amount thereafter. This has a distributional impact on other distressed communities eligible for these funds. North Providence, which became eligible for funding in FY2012, will receive 100.0 percent of its allocation. The Distressed Community Relief program is funded at the FY2012 level of \$10.4 million. The Budget clarifies that a portion of this appropriation (\$784,458) is to be distributed equally among the distressed communities.

Distressed Communities Relief		
Fiscal Year	Total Funding	% Change
2002	\$7.6	4.7%
2003	8.1	6.6%
2004	7.5	-7.5%
2005	9.5	26.5%
2006	10.6	11.6%
2007	10.2	-4.6%
2008	10.4	2.3%
2009	10.4	0.0%
2010	10.4	0.0%
2011	10.4	0.0%
2012	10.4	0.0%
2013	10.4	0.0%

\$ in millions.

Motor Vehicle Excise Tax - RIGL 44-34.1-1

The Motor Vehicle and Trailer Excise Tax Elimination Act of 1998 was enacted to restructure the tax system by reducing local reliance on property taxes in an effort to improve Rhode Island’s tax competitiveness through broad-based property tax relief to the residents of Rhode Island. This is a tax that impacts corporations and private individuals as well as homeowners and renters alike. There are material differences in values and tax rates among communities, with tax rates varied from a low of \$9.75 per \$1,000 in vehicle value in New Shoreham to a high of \$76.78 in Providence. Tax avoidance issues are also of concern, where some taxpayers could potentially register their car in a different community or

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state to minimize or avoid the auto excise tax. Phase-out of the motor vehicle excise tax would eliminate these inequities.

Pursuant to RIGL 44-34.1-1, as amended by the FY2003 Appropriations Act (Article 3), the motor vehicle excise tax is reduced in

Motor Vehicle Exemptions			
Fiscal Year	Exemption	Fiscal Year	Exemption
2000	\$1,500	2007	\$6,000
2001	2,500	2008	6,000
2002	3,500	2009	6,000
2003	4,500	2010	6,000
2004	4,500	2011	500
2005	4,500	2012	500
2006	5,000	2013	500

FY2003 and thereafter and may be phased-out subject to annual review and appropriation by the General Assembly. The reduction applies to all motor vehicles and trailers, including leased vehicles. The tax assessor in each city and town is required to reduce the retail value of each vehicle based on the exemption schedule provided above. In other words, the first \$1,500 of the value could not be taxed in FY2000. This increased to \$6,000 in FY2010; however, it has been reduced to \$500 since FY2011.

- **Distribution:** The Motor Vehicle Excise Tax Elimination Act requires that the cities and towns receive reimbursements from State general revenues equal to the amount of tax revenue lost through the application of the exemptions. Lost revenues are determined using a base tax rate fixed at the FY1998 level for each city and town, except the Town of Johnston, which is fixed at the FY1999 level. Under current law, the tax rolls upon which the reimbursements are calculated are updated to provide the actual data that would have been used by the municipalities had the phase-out not been enacted.

Motor Vehicle Excise Tax		
Fiscal Year	Total Funding	% Change
2002	\$99.6	30.0%
2003	100.2	0.6%
2004	105.0	4.8%
2005	105.0	0.0%
2006	117.6	12.1%
2007	136.2	15.8%
2008	135.3	-0.7%
2009	135.4	0.0%
2010	117.2	-13.4%
2011	10.0	-91.5%
2012	10.0	0.0%
2013	10.0	0.0%

\$ in millions.

- Between FY2000 and FY2008 the reimbursements were calculated assuming a 100.0 percent collection rate.
- Under the program as originally designed, the base tax rate was indexed for inflation by applying the annual change in the December consumer price index – all urban consumers (CPI-U). This practice reimbursed the cities and towns for any tax rate increases that may have occurred had the rate not been frozen.
- In 2003 the General Assembly accepted the Governor’s recommendation to end the CPI-U adjustment, beginning in FY2004.
- In FY2009, the reimbursements were calculated assuming a 98.0 percent collection rate.
- In FY2010, the reimbursements were calculated assuming an 86.2 percent collection rate.
- For FY2011 – FY2013, reimbursements are prorated based on an appropriation of \$10.0 million.

Municipalities receive reimbursements from the State on a quarterly basis on August 1, November 1, February 1, and May 1. Each payment represents 25.0 percent of the amount calculated for reimbursement; however, the February and May payments may differ due to the final certified and reconciled motor vehicle levy information.

Funding: The 2010 General Assembly decreased the reimbursable motor vehicle exemption from \$6,000 to \$500, where it has remained. The State reimburses municipalities for the exemption, ratably reduced to an appropriation of \$10.0 million. Further, the law allows municipalities to provide an additional exemption in excess of \$500; however, these additional exemptions are not be subject to reimbursement (see table). The law provides fire districts the authority to levy a tax on motor vehicles, but without reimbursement. For FY2011 and future years, the law permits municipalities and fire districts to assess

motor vehicles at a tax rate equal to or less than the rate used in FY2010, but no higher, and provides that the State will reimburse municipalities using a tax rate equal to or lower than the rate in effect in FY2010, but no higher.

The following table provides a summary of the motor vehicle exemption amount given by each community for FY2012. Eighteen municipalities (46.2 percent) are giving residents the minimum \$500 exemption; 21 municipalities (53.8 percent), are giving vehicle owners an exemption greater than the minimum \$500 exemption. Of the 21 municipalities offering a higher exemption, 8 (20.5 percent) are maintaining the FY2010 exemption of \$6,000. A community offering an exemption higher than \$500 must absorb the loss in State aid in its operating budget.

FY2011 and FY2012 Motor Vehicle Exemptions

Municipality	FY2011	FY2012	Municipality	FY2011	FY2012
Barrington	\$500	\$500	Narragansett	\$6,000	\$6,000
Bristol	3,000	3,000	Newport	6,000	6,000
Burrillville	2,500	1,500	New Shoreham	6,000	6,000
Central Falls	1,000	1,000	North Kingstown	3,000	3,000
Charlestown	500	500	North Providence	500	500
Coventry	6,000	500	North Smithfield	500	500
Cranston	500	500	Pawtucket	3,400	500
Cumberland	500	500	Portsmouth	3,000	3,000
East Greenwich	6,000	6,000	Providence	6,000	1,000
East Providence	6,000	500	Richmond	500	500
Exeter	500	500	Scituate	6,000	6,000
Foster	6,000	3,100	Smithfield	1,000	1,000
Glocester	2,700	500	South Kingstown	500	3,000
Hopkinton	500	500	Tiverton	6,000	6,000
Jamestown	6,000	6,000	Warren	500	500
Johnston	500	500	Warwick	6,000	500
Lincoln	3,000	3,000	Westerly	500	1,500
Little Compton	6,000	6,000	West Greenwich	500	500
Middletown	3,000	3,000	West Warwick	3,000	3,000
			Woonsocket	500	500

Source: RI Dept. of Revenue, Division of Municipal Finance.

Property Tax Revaluation – RIGL 44-5-11.6

Rhode Island law requires municipalities to conduct full property revaluations every nine years and statistical updates at year three and year six. Communities are responsible for appropriating funds to cover the costs of full property revaluations; however, State law requires that the State reimburse municipalities for 100.0 percent of the first statistical update, not to exceed \$20 per parcel. Reimbursements for subsequent updates are set at 80.0 percent (up to \$16 per parcel) for the second statistical update and 60.0 percent (up to \$12 per parcel) for the third and subsequent revaluations.

Seven communities will be performing statistical updates in FY2013 (December 31, 2012): East Providence, Little Compton, Providence, Scituate, Warren, Warwick, and Westerly. Eleven communities are scheduled for a full revaluation (Burrillville, Central Falls, Jamestown, Johnston, Lincoln, New Shoreham, North Kingstown, North Smithfield, Smithfield, South Kingstown, and West Warwick).

Fiscal Year	State Reimbursement	% Change
2002	\$1.0	-32.7%
2003	1.6	55.4%
2004	2.3	47.5%
2005	0.7	-70.6%
2006	1.2	70.9%
2007	2.1	78.0%
2008	0.7	-66.5%
2009	1.1	61.9%
2010	1.5	35.2%
2011	0.7	-53.1%
2012	0.9	25.3%
2013	1.6	79.0%

\$ in millions.

State of Rhode Island's Schedule of Property Revaluations & Statistical Updates

Municipality	2005*	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Barrington	revaluation			update			update			revaluation			update	
Bristol			revaluation			update			update			revaluation		
Burrillville		update			update			revaluation			update			update
Central Falls		update			update			revaluation			update			update
Charlestown			update			update			revaluation			update		
Coventry			revaluation			update			update			revaluation		
Cranston	revaluation			update			update			revaluation			update	
Cumberland			update			update			revaluation			update		
East Greenwich	revaluation			update			update			revaluation			update	
East Providence		revaluation			update			update			revaluation			update
Exeter	update			update			revaluation			update			update	
Foster	update			revaluation			update			update			revaluation	
Glocester			update			revaluation			update			update		
Hopkinton	update					update			revaluation			update		
Jamestown		update			update			revaluation			update			update
Johnston		update			update			revaluation			update			update
Lincoln		update			update			revaluation			update			update
Little Compton		update			revaluation			update			update			revaluation
Middletown	update			revaluation			update			update			revaluation	
Narragansett	update			update			revaluation			update			update	
New Shoreham		update			update			revaluation			update			update
Newport	update			update			revaluation			update			update	
North Kingstown		update			update			revaluation			update			update
North Providence			update			update			revaluation			update		
North Smithfield		update			update			revaluation			update			update
Pawtucket	update			revaluation			update			update			revaluation	
Portsmouth			revaluation			update			update			revaluation		
Providence		update			revaluation			update			update			revaluation
Richmond			update			revaluation			update			update		
Scituate		update			revaluation			update			update			revaluation
Smithfield		update			update			revaluation			update			update
South Kingstown		update			update			revaluation			update			update
Tiverton	update			update			revaluation			update			update	
Warren		revaluation			update			update			revaluation			update
Warwick		revaluation			update			update			revaluation			update
West Greenwich			update			revaluation			update			update		
West Warwick		update			update			revaluation			update			update
Westerly		update			revaluation			update			update			revaluation
Woonsocket	update			revaluation			update			update			revaluation	

First Update
 Second Update
 Third Update or after

* Represents annual assessment date of Dec. 31 for the respective year.

Source: Division of Municipal Finance

Funding: For FY2012, the General Assembly appropriated \$905,220 to reimburse communities for costs associated with statistical updates. For FY2013, the General Assembly included \$1.6 million for this program.

Library Aid

Two programs provide financial assistance to libraries: grant-in-aid support for local public library services, and assistance for construction and capital improvements of any free public library. A portion of library aid is disbursed directly to local libraries, which include private libraries, while other aid is disbursed to the individual cities and towns.

Grant-in-Aid – RIGL 29-6: This statute requires that the State support public libraries with funding of at least 25.0 percent of the amount appropriated and expended in the second preceding fiscal year by the city or town from local tax revenues.

Fiscal Year	Library Aid		Total Aid	% Change
	Grant in Aid	Construction		
2002	\$6.3	\$2.0	\$8.3	4.1%
2003	6.6	2.2	8.8	5.2%
2004	7.6	2.1	9.7	10.5%
2005	8.1	2.5	10.6	9.0%
2006	8.4	2.6	11.0	4.4%
2007	8.7	2.8	11.5	4.0%
2008	8.7	2.7	11.4	-0.4%
2009	8.7	2.6	11.3	-1.0%
2010	8.8	2.7	11.5	1.9%
2011	8.7	2.5	11.2	-2.4%
2012	8.7	2.8	11.5	2.6%
2013	8.7	2.5	11.2	-3.0%

\$ in millions.

Library Aid is distributed based on the city or town’s expenditure level as a percentage of the total expenditures by all communities statewide. State grant-in-aid funds cannot be used to supplant local funds. Furthermore, RIGL 29-6-2 requires grant-in-aid funding to reach 25.0 percent of local

expenditures by FY2000. The 2002 General Assembly implemented a ratable reduction clause in the event that the total amount of the grants as calculated under the formula exceeds the amount appropriated. Previously, in order to be eligible for these funds, cities and towns had to maintain their level of support for public library services at 100.0 percent of the previous year’s funding from the local tax base. However, in FY2009, the General Assembly enacted legislation which would allow communities to fund their public libraries at 80.0 percent of the prior year’s level in order to be eligible for these funds. For FY2010, municipalities were allowed to fund their public libraries at 80.0 percent of the previous year’s allocation and still be eligible for State Library Aid. This provision was not extended to FY2011.

For FY2012 and FY2013, the General Assembly has included \$8.7 million per year in Library Aid.

Public Library Construction Reimbursement (RIGL 29-6-6): This statute authorizes the State to make grants to a municipality or a free public library for construction or capital improvements. The State reimburses up to 50.0 percent of the cost of approved local library construction projects. The State share is reimbursable over a period not to exceed twenty (20) years, and payments are calculated to include the interest incurred through borrowing. The Library Board of Rhode Island has established a policy outlining priorities and maximum allowable square foot costs for proposed projects.

The 2011 General Assembly instituted a moratorium on approvals of new construction projects by the Chief of Library Services. This moratorium began at the time of passage of the legislation through July 1, 2014.

The General Assembly appropriated \$2.8 million in Library Construction Aid for FY2012, which was the actual amount of projects reimbursed by the Office of Library and Information Services. For FY2013, the General Assembly appropriated \$2.5 million.

General Revenue Sharing (RIGL 45-13-1)

Beginning in FY1994, 1.0 percent of total State tax revenues from the second prior fiscal year were earmarked for general State Aid to cities and towns. This amount was required to increase annually, beginning in FY1999, until reaching 4.7 percent in FY2010. The incremental increase was implemented to offset revenues lost by the municipalities due to the State’s requirement to phase-out local inventory taxes, and the increase was calculated to provide approximately \$5.0 million in additional revenue annually.

The 2002 General Assembly delayed the incremental increase for FY2003 by one year and provided subsequent adjustments in the schedule. In FY2004, 2.7 percent of total State tax revenues from FY2002 were apportioned to cities and towns. When the delay was implemented in FY2003, there was no adjustment made to the schedule for the inventory phase-out. FY2008 was the last year for the rate.

General Revenue Sharing

Fiscal Year	Total Funding	% Change	% of State Revenues
2000	\$27.6	39.8%	1.7%
2001	33.5	21.5%	2.0%
2002	43.6	30.2%	2.4%
2003	48.3	10.7%	2.4%
2004	51.4	6.5%	2.7%
2005	52.4	1.9%	A
2006	65.0	23.9%	3.0%
2007	65.1	0.2%	A
2008	55.1	-15.4%	A
2009	25.0	-54.6%	A
2010	0.0	-100.0%	0.0%
2011	0.0	-	0.0%
2012	0.0	-	0.0%
2013	0.0	-	0.0%

\$ in millions.

A - funding determined by appropriation, not as a percentage of State revenue.

inventory tax, which was 10.0 percent of the 1999

For FY2007, the Governor recommended freezing the level of funding at the FY2006 level and also recommended freezing the phase-up at 3.0 percent for FY2008 and beyond. The General Assembly froze the program at the FY2006 level but left the phase-up to 4.7 percent in FY2011.

For FY2008, the General Assembly concurred with the Governor's proposal to freeze General Revenue Sharing payments at the FY2007 level and fix future amounts at 3.0 percent of tax revenues, ending the phase-up.

In the FY2009 Supplemental Budget, the Governor had recommended eliminating General Revenue Sharing. The General Assembly did not concur, and appropriated \$25.0 million in General Revenue Sharing in FY2009, which was \$30.1 million less than originally enacted.

In FY2010, the General Assembly concurred with the Governor and did not fund General Revenue Sharing. FY2009 was the last year that General Revenue Sharing was funded.

INDIRECT MUNICIPAL AID

Indirect Aid, also referred to as "Pass-Through Aid," is money collected by the Department of Revenue from outside sources, such as hotel, restaurants, and communications companies, and distributed, or passed through, to cities and towns. It is not appropriated during the budget process, and therefore is not in the Budget as Enacted. In the case of Public Service Corporation Tax, the funds are distributed based on community population relative to the State's population. Meal and Beverage taxes and Hotel taxes are distributed to the communities from which the tax revenue originated.

Public Service Corporation Tax (PSCT) – RIGL 44-13-13

The tangible personal property of telegraph, cable, and telecommunications corporations and express corporations (a transportation company that uses boats or trains) is exempt from local taxation, and instead is subject to taxation by the State. Companies are required to report the value of their tangible personal property to the Division of Taxation annually, by March 1.

The State Tax Administrator applies the State's average assessment ratio and the State's average tax rate to the value of tangible personal property of each company to calculate the amount of tax due. The "average assessment ratio" is the total statewide assessed valuation divided by the statewide full market value of the valuation. The "average property rate" is the total statewide property levy divided by the total statewide assessed valuation.

Funding: Collections from this tax have ranged from a peak of \$18.0 million in FY2003 to \$9.2 million in FY2009. The average property tax rate has declined as the total assessed valuation increased dramatically due to large increases in real estate values over this same period of time. This resulted in a reduced tax rate being applied to Public Service Corporation Tax assets, which now carry a lower value. In order to stop this downward trend in revenue to support local communities, the 2009 General Assembly amended the law to require that the tax rate applied in a given tax year shall not be less than the rate applied in the previous tax year, preserving \$646,000 of tax revenue to the municipalities in FY2010 that would have been lost due to the reduced tax rate.

Distribution: The revenue from this tax flows through the State: it is not appropriated. The Department of Revenue may receive payment of reasonable administrative expenses, not to exceed 0.75 percent of the proceeds. The remainder of the revenue is deposited into a restricted receipt account and apportioned

Public Service Corporation		
Fiscal Year	Total Funding	% Change
2002	\$16.7	21.8%
2003	18.0	7.9%
2004	16.3	-9.4%
2005	14.6	-10.5%
2006	12.2	-16.5%
2007	10.3	-15.2%
2008	10.3	0.0%
2009	9.2	-11.1%
2010	10.2	10.9%
2011	11.4	11.8%
2012	11.8	3.5%
2013	12.7	7.6%

\$ in millions.

to the cities and towns based on the ratio of each municipality’s population relative to the total population of the State.

Meals and Beverage Local Sales and Use Tax – RIGL 44-18-18.1

During the 2003 session, the General Assembly enacted a 1.0 percent gross receipt tax on retail sales of meals and beverages in or from, eating and/or drinking establishments. Beverages include all non-alcoholic beverages, as well as alcoholic beverages. A meal is any prepared food or beverage offered for sale which is ready for immediate consumption.

Funding: This 1.0 percent gross receipts tax is in addition to all other taxes and fees currently imposed on meals and beverages. The revenue from this tax flows through the State: it is not appropriated. Taxes are collected by the retailer and submitted to the Division of Taxation.

Distribution: The Division of Taxation distributes these funds monthly, (although State law requires distribution at least quarterly), to the city or town where the meals and beverages were delivered. For FY2012 municipalities will receive \$19.6 million. The estimate for FY2013 is \$20.0 million, which is a growth rate of 2.0 percent over the FY2012 meals and beverage tax.

Meals & Beverage Tax		
Fiscal Year	Total Funding	% Change
2004	\$13.5	
2005	17.2	27.3%
2006	17.6	2.5%
2007	18.8	6.9%
2008	18.7	-0.4%
2009	18.8	0.3%
2010	19.0	0.9%
2011	19.5	2.6%
2012	19.6	0.8%
2013	20.0	1.6%

\$ in millions.

Hotel Tax – RIGL 44-18-36.1

The State levies a 5.0 percent gross receipts tax on charges for occupancy of any space furnished in buildings or structures with a minimum of three rooms that are kept, used, maintained, advertised or held out to the public to be a space where living quarters are supplied for pay to transient use (30 days or less). This tax is collected by the hotel and remitted to the Division of Taxation on a monthly basis. This tax is in addition to all other taxes and fees currently imposed.

Distribution: The Division of Taxation collects the 5.0 percent tax and is responsible for distribution, except for the City of Newport, which is authorized to collect and disburse taxes from all hotels physically located in the city. Funds are distributed as follows:

- 47.0 percent is distributed to the regional tourism district where the hotel is located (except for the City of Providence, where 16.0 percent is distributed to the Greater Providence-Warwick Convention and Visitors’ Bureau and 31.0 percent is distributed to the Convention Authority of the City of Providence; and Warwick, where 16.0 percent is distributed to the Greater Providence-Warwick Convention and Visitors’ Bureau and 31.0 percent is distributed to the Warwick regional tourism district).
- 25.0 percent is distributed to the city or town where the hotel which generated the tax is physically located.
- 21.0 percent is deposited as State general revenues.
- 7.0 percent is distributed to the Greater Providence-Warwick Convention and Visitors’ Bureau.

An additional 1.0 percent tax, which was enacted in FY2005, is distributed in total to the city or town where the occupancy occurred.

Hotel Tax		
Fiscal Year	Total Funding	% Change
2002	\$2.9	-12.1%
2003	2.7	-6.9%
2004	2.8	3.7%
2005	3.6	28.6%
2006	5.4	50.0%
2007	5.7	5.6%
2008	5.8	1.8%
2009	5.6	-3.4%
2010	5.7	1.8%
2011	5.9	2.7%
2012	5.5	-6.8%
2013	5.5	1.4%

\$ in millions.

OTHER AID TO LOCAL GOVERNMENT***Warwick Rental Car Tax Revenue***

The RI Airport Corporation levies a \$5.00 (up from \$4.50 as of October 1, 2010) per rental vehicle, per day, customer facility charge (CFC) for all vehicle rentals from companies operating at T.F Green Airport. Revenues from the CFC are to be used to pay for the construction, expansion, reconfiguration, operation and maintenance of the Warwick Intermodal Transit Station. The CFC is applied prior to the application of the sales tax and rental vehicle surcharge. Since 2003, pursuant to RIGL 1-2-17.1, all sales taxes (7.0 percent) and rental vehicle surcharges (6.0 percent) collected from the application of the CFC are deposited into a restricted receipt account for the City of Warwick. These payments totaled \$631,132 in FY2010, \$657,358 in FY2011, and \$957,497 in FY2012.

For FY2013, the Budget includes funding at the FY2012 level of \$957,497, which does not reflect any growth in customer facility charges.

Airport Impact Fees

Since FY2007, the State has made airport impact aid payments to municipalities that have airports, totaling approximately \$1.0 million each year. The funding is provided annually through Article 1 of the budget and flows through the Rhode Island Economic Development Corporation. The aid is distributed based upon a statutory formula that provides 60.0 percent of the first \$1.0 million (\$600,000) for communities with airports serving more than 1.0 million passengers per year. T.F. Green is the only airport in the State that meets this threshold. The remaining 40.0 percent is distributed to communities based on each airport's share of total landings in a calendar year, including T.F. Green. No community which hosts an airport receives less than \$25,000.

FY2013 Estimate	1.0 million passengers	Distribution on landings	All Airports and Communities to \$25,000	Total
Warwick - T.F. Green	\$600,000	\$193,000		\$793,000
Block Island		31,500		31,500
Middletown-Newport Airport ¹		43,000		43,000
North Central				
Smithfield		20,000	5,000	25,000
Lincoln		20,000	5,000	25,000
North Kingstown - Quonset		66,000		66,000
Westerly		41,500		41,500
Total	\$600,000	\$415,000	\$10,000	\$1,025,000

¹ Located in Middletown

FY2012 Direct Municipal Aid to Cities and Towns - Revised

Municipality	FY2012 Enacted		Payment In		Distressed		Library			Total FY2012		Change from FY2012 Enacted
			Lieu of Taxes	Relief Fund	Motor Vehicle Excise Tax	Library in-Aid ¹	Grant-Construction Aid	Stabilization	Revised Municipal Aid			
Barrington	\$706,614	\$54,250	\$0	\$0	\$245,208	\$332,622	\$74,534	\$0	\$706,614	\$0		
Bristol	1,217,104	715,338	-	-	117,205	119,255	265,306	-	1,217,104	-		
Burrillville	1,003,592	115,270	243,867	243,867	214,709	124,048	305,698	-	1,003,592	-		
Central Falls	464,036	23,895	292,172	292,172	84,330	62,301	-	2,636,932	3,099,630	2,635,594		
Charlestown	88,563	-	-	-	41,218	47,345	-	-	88,563	-		
Coventry	428,746	-	-	-	225,597	203,149	-	-	428,746	-		
Cranston	6,324,952	4,807,056	-	-	951,625	530,519	35,753	-	6,324,953	-		
Cumberland	692,526	124	-	-	216,513	266,209	209,680	-	692,526	-		
East Greenwich	314,529	8,724	-	-	123,478	111,399	70,927	-	314,528	-		
East Providence	1,871,960	153,405	757,468	757,468	445,084	395,804	120,200	-	1,871,961	-		
Exeter	192,711	-	-	-	82,437	40,392	69,882	-	192,711	-		
Foster	101,233	475	-	-	69,333	31,425	-	-	101,233	-		
Glocester	165,097	-	-	-	94,919	70,178	-	-	165,097	-		
Hopkinton	95,133	-	-	-	65,621	29,512	-	-	95,133	-		
Jamestown	172,282	-	-	-	36,685	77,618	57,979	-	172,282	-		
Johnston	492,748	-	-	-	382,377	110,371	-	-	492,748	-		
Lincoln	423,270	-	-	-	236,662	186,608	-	-	423,270	-		
Little Compton	51,843	-	-	-	23,548	28,295	-	-	51,843	-		
Middletown	277,407	-	-	-	89,262	126,526	61,619	-	277,407	-		
Narragansett	219,603	-	-	-	95,791	123,812	-	-	219,603	-		
Newport	1,692,404	932,980	-	-	138,612	377,002	243,809	-	1,692,403	-		
New Shoreham	145,183	-	-	-	8,132	73,576	63,475	-	145,183	-		
North Kingstown	524,855	1,981	-	-	228,200	257,813	36,861	-	524,855	-		
North Providence	1,642,603	505,424	620,828	620,828	350,127	163,008	-	-	1,639,387	(3,215)		
North Smithfield	236,900	-	-	-	173,847	63,053	-	-	236,900	-		
Pawtucket	2,999,637	435,268	1,524,800	1,524,800	664,782	365,315	-	-	2,990,165	(9,472)		
Portsmouth	212,048	-	-	-	109,483	102,565	-	-	212,048	-		
Providence	32,475,910	23,109,815	5,169,135	5,169,135	1,617,922	2,274,783	329,484	-	32,501,139	25,228		
Richmond	82,962	-	-	-	60,200	22,762	-	-	82,962	-		
Scituate	221,942	-	-	-	127,207	94,735	-	-	221,942	-		
Smithfield	1,082,304	533,237	-	-	281,936	267,131	-	-	1,082,304	-		
South Kingstown	545,441	160,632	-	-	172,163	203,044	9,602	-	545,441	-		
Tiverton	185,099	-	-	-	108,700	76,399	-	-	185,099	-		
Warren	135,056	-	-	-	82,773	52,283	-	-	135,056	-		
Warwick	3,211,245	1,241,268	-	-	1,156,532	638,710	174,735	-	3,211,245	-		
Westerly	1,086,862	128,720	-	-	230,697	269,310	458,135	-	1,086,862	-		
West Greenwich	76,025	-	-	-	49,532	26,493	-	-	76,025	-		
West Warwick	1,366,392	-	-	894,406	223,933	173,748	68,519	-	1,360,606	(5,786)		
Woonsocket	1,770,612	152,547	881,782	881,782	373,623	191,671	165,572	-	1,765,195	(5,418)		
Total	\$64,997,426	\$33,080,409	\$10,384,458	\$10,000,000	\$8,710,789	\$2,821,770	\$2,636,932	\$67,634,361	\$2,636,932	\$2,636,932		

¹ Providence Library Aid includes \$1,012,378 for the Statewide Reference Library Resource Grant.

FY2013 Direct Municipal Aid to Cities and Towns

Municipality	Distressed			Library			Total FY2013 Municipal Aid	Change from FY2012 Revised
	Payment in Lieu of Taxes	Communities Relief Fund	Motor Vehicle Excise Tax	Library in-Aid ¹	Grant-Construction Aid			
Barrington	\$706,614	\$38,827	\$245,208	\$334,107	\$72,609	\$690,751	(\$15,863)	
Bristol	1,217,104	672,847	117,205	118,895	262,606	1,171,553	(45,551)	
Burrillville	1,003,592	108,949	214,709	125,987	298,399	748,044	(255,548)	
Central Falls ⁴	3,099,630	22,986	84,330	47,079	-	444,103	(2,655,527)	
Charlestown	88,563	-	41,218	47,128	-	88,346	(217)	
Coventry	428,746	-	225,597	207,369	-	432,966	4,220	
Cranston	6,324,953	4,554,377	951,625	524,404	34,000	7,265,886	940,933	
Cumberland	692,526	96	216,513	264,240	210,766	691,615	(911)	
East Greenwich	314,528	164,567	123,478	114,121	70,632	472,798	158,270	
East Providence	1,871,961	163,162	445,084	416,425	69,352	1,094,023	(777,938)	
Exeter	192,711	-	82,437	40,082	69,882	192,401	(310)	
Foster	101,233	435	69,333	29,625	-	99,393	(1,840)	
Glocester	165,097	-	94,919	69,879	-	164,798	(299)	
Hopkinton	95,133	-	65,621	29,999	-	95,620	487	
Jamestown	172,282	-	36,685	79,139	57,979	173,803	1,521	
Johnston	492,748	-	382,377	111,963	-	494,340	1,592	
Lincoln	423,270	-	236,662	189,340	-	426,002	2,732	
Little Compton	51,843	-	23,548	28,078	-	51,626	(217)	
Middletown	277,407	-	89,262	128,935	60,172	278,369	962	
Narragansett	219,603	-	95,791	121,555	-	217,346	(2,257)	
Newport	1,692,403	905,365	138,612	374,002	237,434	1,655,413	(36,990)	
New Shoreham	145,183	-	8,132	73,011	61,761	142,904	(2,279)	
North Kingstown	524,855	1,859	228,200	257,842	35,695	523,596	(1,259)	
North Providence	1,639,387	528,650	350,127	164,384	-	2,068,899	429,512	
North Smithfield	236,900	-	173,847	62,569	-	236,416	(484)	
Pawtucket	2,990,165	398,662	664,782	369,002	-	2,849,197	(140,968)	
Portsmouth	212,048	-	109,483	102,367	-	211,850	(198)	
Providence ²	32,501,139	23,455,411	1,617,922	2,229,981	315,571	32,423,219	(77,920)	
Richmond	82,962	-	60,200	24,829	-	85,029	2,067	
Scituate	221,942	-	127,207	94,008	-	221,215	(727)	
Smithfield	1,082,304	497,049	281,936	265,315	-	1,044,300	(38,004)	
South Kingstown	545,441	151,238	172,163	196,594	9,209	529,204	(16,237)	
Tiverton	185,099	-	108,700	91,928	-	200,628	15,529	
Warren	135,056	-	82,773	51,832	-	134,605	(451)	
Warwick	3,211,245	1,150,336	1,156,532	662,952	171,010	3,140,830	(70,415)	
Westerly	1,086,862	118,381	230,697	270,491	267,706	887,275	(199,587)	
West Greenwich	76,025	-	49,532	26,290	-	75,822	(203)	
West Warwick	1,360,606	-	817,916	171,858	-	1,213,707	(146,899)	
Woonsocket	1,765,195	147,213	828,531	193,184	166,932	1,709,483	(55,712)	
Total	\$67,634,361	\$33,080,410	\$10,384,458	\$8,710,789	\$2,471,715	\$64,647,375	(\$2,986,986)	

¹ FY2012 Revised includes a one-time Central Falls Stabilization payment of \$2,000,000.

² Providence Library Aid includes \$1,012,378 for the Statewide Reference Library Resource Grant.

FY2012 Indirect Local Aid to Cities and Towns - Revised

Municipality	FY2012 Enacted	Public Service Corporation			Airport Impact Fees	FY2012 Revised Indirect Aid	Change from FY2012 Enacted
		Tax	Meals and Beverage Tax	Hotel Tax			
Barrington	\$321,821	\$183,574	\$125,369	\$0	\$0	\$308,943	(\$12,878)
Bristol	590,799	258,355	331,443	28,193	-	617,991	27,192
Burrillville	362,504	179,579	174,724	-	-	354,303	(8,201)
Central Falls	300,312	218,083	90,188	-	-	308,271	7,959
Charlestown	206,420	88,095	106,584	19,739	-	214,418	7,998
Coventry	805,432	394,094	338,344	76,431	-	808,869	3,437
Cranston	2,272,849	904,782	1,380,307	5,643	-	2,290,732	17,883
Cumberland	743,326	377,121	358,998	-	-	736,119	(7,207)
East Greenwich	586,319	147,963	425,423	364	-	573,750	(12,569)
East Providence	1,320,227	529,417	741,320	30,958	-	1,301,695	(18,532)
Exeter	143,396	72,315	67,792	-	-	140,107	(3,289)
Foster	69,092	51,842	17,356	133	-	69,331	239
Glocester	175,453	109,694	58,673	1,841	-	170,208	(5,245)
Hopkinton	134,704	92,159	44,859	-	-	137,018	2,314
Jamestown	152,573	60,835	75,200	8,291	-	144,326	(8,247)
Johnston	767,458	323,804	448,373	6,614	-	778,791	11,333
Lincoln	953,046	237,544	634,679	79,789	25,000	977,012	23,966
Little Compton	91,312	39,304	32,707	14,856	-	86,867	(4,445)
Middletown	1,338,307	181,774	572,552	523,225	43,000	1,320,551	(17,756)
Narragansett	731,523	178,600	450,262	75,394	-	704,256	(27,267)
Newport	3,395,508	277,691	1,654,747	1,539,471	-	3,471,909	76,401
New Shoreham	474,360	11,829	237,402	211,187	31,500	491,918	17,558
North Kingstown	741,274	298,109	442,617	13,798	66,000	820,524	79,250
North Providence	719,121	361,048	374,096	-	-	735,144	16,023
North Smithfield	295,363	134,692	157,666	1,896	-	294,254	(1,109)
Pawtucket	1,504,829	800,794	654,796	42,479	-	1,498,069	(6,760)
Portsmouth	366,653	195,719	165,836	6,714	-	368,269	1,616
Providence	7,331,063	2,003,921	4,111,509	1,313,461	-	7,428,891	97,828
Richmond	194,137	86,756	107,840	3,299	-	197,895	3,758
Scituate	179,577	116,256	54,344	3,683	-	174,283	(5,294)
Smithfield	859,641	241,202	515,963	108,899	25,000	891,064	31,423
South Kingstown	988,908	344,852	541,974	110,551	-	997,377	8,469
Tiverton	322,361	177,609	158,402	-	-	336,011	13,650
Warren	328,644	119,430	222,899	-	-	342,329	13,685
Warwick	4,030,264	930,500	2,248,356	780,231	793,000	4,752,087	721,823
Westerly	947,320	256,475	584,160	245,757	41,500	1,127,892	180,572
West Greenwich	272,330	69,051	87,954	71,125	-	228,130	(44,200)
West Warwick	837,542	328,554	344,913	93,677	-	767,144	(70,398)
Woonsocket	1,033,870	463,562	506,063	38,302	-	1,007,927	(25,943)
Total	\$36,889,638	\$11,846,984	\$19,646,690	\$5,456,001	\$1,025,000	\$37,974,675	\$1,085,037

FY2013 Indirect Local Aid to Cities and Towns

Municipality	FY2012 Revised	Public Service			Airport Impact Fees	FY2013 Total Indirect Aid	Change from FY2012 Revised
		Corporation Tax	Meals and Beverage Tax	Hotel Tax			
Barrington	\$308,943	\$196,291	\$127,367	\$0	\$0	\$323,658	\$14,715
Bristol	617,991	276,252	336,726	28,593	-	641,571	23,580
Burrillville	354,303	192,019	177,509	-	-	369,528	15,225
Central Falls	308,271	233,190	91,626	-	-	324,816	16,545
Charlestown	214,418	94,198	108,283	20,019	-	222,500	8,082
Coventry	808,869	421,394	343,737	77,514	-	842,645	33,776
Cranston	2,290,732	967,459	1,402,310	5,723	-	2,375,492	84,760
Cumberland	736,119	403,245	364,720	-	-	767,965	31,846
East Greenwich	573,750	158,212	432,204	369	-	590,785	17,035
East Providence	1,301,695	566,091	753,137	31,397	-	1,350,625	48,930
Exeter	140,107	77,325	68,873	-	-	146,198	6,091
Foster	69,331	55,433	17,633	135	-	73,201	3,870
Glocester	170,208	117,293	59,608	1,868	-	178,769	8,561
Hopkinton	137,018	98,543	45,574	-	-	144,117	7,099
Jamestown	144,326	65,049	76,399	8,408	-	149,856	5,530
Johnston	778,791	346,235	455,520	6,708	-	808,463	29,672
Lincoln	977,012	253,999	644,796	80,920	25,000	1,004,715	27,703
Little Compton	86,867	42,026	33,228	15,066	-	90,320	3,453
Middletown	1,320,551	194,366	581,678	530,640	43,000	1,349,684	29,133
Narragansett	704,256	190,972	457,440	76,462	-	724,874	20,618
Newport	3,471,909	296,928	1,681,125	1,561,288	-	3,539,341	67,432
New Shoreham	491,918	12,649	241,187	214,180	31,500	499,516	7,598
North Kingstown	820,524	318,759	449,672	13,993	66,000	848,424	27,900
North Providence	735,144	386,059	380,059	-	-	766,118	30,974
North Smithfield	294,254	144,023	160,179	1,923	-	306,125	11,871
Pawtucket	1,498,069	856,267	665,234	43,081	-	1,564,582	66,513
Portsmouth	368,269	209,277	168,480	6,809	-	384,566	16,297
Providence	7,428,891	2,142,738	4,177,048	1,332,075	-	7,651,861	222,970
Richmond	197,895	92,766	109,559	3,346	-	205,671	7,776
Scituate	174,283	124,310	55,210	3,735	-	183,255	8,972
Smithfield	891,064	257,910	524,188	110,442	25,000	917,540	26,476
South Kingstown	997,377	368,741	550,613	112,117	-	1,031,471	34,094
Tiverton	336,011	189,913	160,927	-	-	350,840	14,829
Warren	342,329	127,704	226,453	-	-	354,157	11,828
Warwick	4,752,087	994,959	2,284,195	791,288	793,000	4,863,442	111,355
Westerly	1,127,892	274,242	593,472	249,239	41,500	1,158,453	30,561
West Greenwich	228,130	73,835	89,356	72,133	-	235,324	7,194
West Warwick	767,144	351,314	350,411	95,004	-	796,729	29,585
Woonsocket	1,007,927	495,674	514,130	38,845	-	1,048,649	40,722
Total	\$37,974,675	\$12,667,660	\$19,959,866	\$5,533,320	\$1,025,000	\$39,185,846	\$1,211,171

Rhode Island Retirement Security Act

On November 17, 2011, the General Assembly passed the Rhode Island Retirement Security Act (RIRSA), which was submitted by the General Treasurer and the Governor of Rhode Island, to reform the state and local pension systems to make them sustainable for all members and affordable for taxpayers. Projections had pension costs consuming a larger proportion of resources. In addition, Rhode Island still faces structural deficits in its five-year forecast, with no near term projection to “grow” out of the problem. As the funded levels of the state pension systems continue to deteriorate, the Act will improve the funded levels through a series of pension reforms.

The Act:

- Reduces the State’s unfunded liability of nearly \$7.0 billion by over \$3.0 billion and prevents future erosion of the State’s pension systems, while targeting an 80.0 percent funding level for all pension systems.
- Ensures employees preserve what they have earned through June 30, 2012, while shifting future risk to public employees through a new hybrid plan that draws from both defined benefit (DB) and defined contribution (DC) plans.
- Ensures there is no impact on the ability to retire for those who are eligible to retire as of June 30, 2012.

Group	Funded Ratios			RIRSA FY2013	Change
	FY2011	FY2012	FY2013		
State Employees	62.3%	59.0%	48.4%	59.8%	11.4%
Teachers	61.0%	58.1%	48.4%	61.8%	13.4%
Judges	91.0%	88.3%	77.8%	81.6%	3.8%
State Police	79.6%	79.8%	69.7%	90.0%	20.3%
MERS - General	93.6%	88.6%	74.8%	87.6%	12.8%
MERS - Public Safety	90.6%	87.2%	70.7%	86.2%	15.5%

The Rhode Island Retirement Security Act of 2011:

- Suspends new cost-of-living adjustments (COLAs) to retirees’ benefits until the system is better funded but provides for an intermittent COLA every five years until 80.0 percent funded.
- Moves all but public safety employees to hybrid pension plans.
- Increases the minimum retirement age for most employees not already eligible to retire.
- Preserves accrued benefits earned through June 30, 2012.
- Begins to address independent local plan solvency issues.

Overview of Impact on State and Local Budgets

Pension costs are consuming a larger proportion of state and local resources, making it increasingly difficult to invest in other public services. In FY2012, the combined pension contribution for communities that participate in state-administered Municipal Employees’ Retirement System (MERS) plans was \$33.1 million, and this would have increased to \$65.7 million in FY2013 under pre-reform law, a \$32.6 million increase (98.5 percent). The Act results in an estimated FY2013 local pension contribution for MERS pensions of \$38.1 million, approximately \$27.6 million less than pre-reform

FY2013 projections. The FY2013 local contribution for MERS pensions reflects a \$5.0 million increase over FY2012 (15.1 percent).

Local communities contributed approximately \$134.2 million for teacher retirement in FY2012. Teacher retirement contributions were projected to increase to \$221.0 million in FY2013, an \$86.8 million increase (65.0 percent increase). The Act results in an estimated FY2013 local pension contribution for teachers of \$136.9 million, a net decrease of approximately \$84.1 million from the projected FY2013 contribution. The FY2013 local contribution for teacher pensions reflects a \$2.7 million increase from FY2012.

Local Employer Contributions					
Contributions	Current Law		FY2013 RIRSA		
	FY2012	FY2013	Defined Benefit	Defined Contribution	Total
MERS Municipal	\$20.4	\$40.9	\$25.3	\$2.2	\$27.5
MERS Police & Fire	12.8	24.8	9.6	1.0	10.6
MERS Subtotal	\$33.2	\$65.7	\$34.9	\$3.2	\$38.1
Teachers	134.2	221.0	120.7	16.2	136.9
Total MERS/Teachers	\$167.4	\$286.7	\$155.6	\$19.4	\$175.0

\$ in millions.

In FY2012, the combined pension contribution for municipalities was \$167.4 million, and this would have increased to \$286.7 million in FY2013 under pre-reform law, a \$119.4 million increase. The Act resulted in an estimated FY2013 local pension contribution for municipalities of \$175.0 million, approximately \$111.7 million less than pre-reform FY2013 projections. The FY2013 local contribution for municipalities reflects a \$7.6 million increase over FY2012.

The Act also has an impact on the unfunded liability of the different municipal pension systems. As shown below, the unfunded liability of the MERS pension systems declines from \$430.2 million to \$176.1 million. This represents a 59.1 percent decline in the unfunded liability for MERS pension plans.

Unfunded Actuarial Accrued Liability (As of June 30, 2010)					
	FY2012	FY2013	RIRSA		
			FY2013	Change	Percent
MERS - General	\$110.6	\$286.8	\$120.7	(\$166.1)	-57.9%
MERS - Public Safety	48.7	143.4	55.4	(88.0)	-61.4%
Total	\$159.3	\$430.2	\$176.1	(\$254.1)	-59.1%

\$ in millions.

COLA Provisions: Post-retirement benefit adjustments, often referred to as Cost of Living Adjustments (COLAs), will change under the Act. The Act ensures that retirees do not lose any COLAs granted prior to July 1, 2012, but suspends future annual COLAs until the aggregate funded ratio of the Employees' Retirement System of Rhode Island, the Judicial Retirement Benefits Trust and the State Police Retirement Benefits Trust exceeds 80.0 percent.

The 110 MERS pension plans will not be included in this calculation. Rather, each MERS plan will have an annual determination of its funding status, and the COLA for beneficiaries paid from each system will be subject to the respective funding status of each plan.

The Act moves all groups (current and future retirees) to the same COLA as of July 1, 2012. The Act establishes a limited, risk-based COLA that is only granted when the pension system is well-funded. The COLA is equal to the difference between the 5-year smoothed investment return and 5.5 percent, calculated to equal no more than 4.0 percent and not less than zero. The COLA will be applied to the

member's first \$25,000 of pension income; that limit will be indexed to grow at the same rate as the COLA adjustment. The growth of the \$25,000 will occur even during a period when the COLA is suspended.

New Hybrid Plan: The Act introduces a hybrid pension structure for all except public safety employees and judges. The intent of the hybrid plan is to shift risk to the employee through combining the attributes of both the defined benefit and defined contribution plans. Teachers, state employees and the state-administered municipal plans (MERS) will all participate in this new structure.

Defined Benefit Structure: The Act restructures the defined benefit component of retirement benefits starting July 1, 2012. Employees retain all benefits accrued through June 30, 2012, and those eligible to retire as of June 30, 2012, will not have their eligibility to do so change.

The Act includes the following structure for the defined benefit component of the hybrid plan:

- Benefit accruals of 1.0 percent per year of service beginning July 1, 2012.
- Benefits are calculated based on the member's 5-year highest average compensation, including MERS plans, which are currently based on a 3-year average.
- Reduces vesting requirement from 10 years to 5 years.
- Reduces the teacher contribution rate to the defined benefit plan from 9.5 percent to 3.75 percent.
- Reduces MERS contribution rates from 6.0 percent to 1.0 percent (7.0 percent to 2.0 percent for those electing the COLA provisions).

For employees with at least five years of service on July 1, 2012, the new retirement age is discounted proportionally based on how close they are to retirement as of June 30, 2012. The closer employees are to their current law retirement age, the fewer additional years get added to that retirement age, provided the new age can be no lower than 59.

While members with at least 10 years of service on June 30, 2012, may elect to retire with benefits accrued as of June 30, 2012, at their current retirement age, they must work until their modified retirement age in order to have any service credits earned after June 30, 2012, included in their final retirement benefit calculation. In either case, the employee keeps all defined contributions.

Defined Contribution Structure: The Act overlays the defined benefit program described above with a new defined contribution program. A defined contribution program is a program where contributions are made to an individual retirement account, where the account balance when one retires is based on the money that accumulates in an employee's account over time, reflecting any employer/employee contributions and any investment gains or losses.

Teachers, state employees and MERS municipal plans will all participate in this new structure. Corrections officers, State Police, judges and MERS public safety personnel will not have a defined contribution plan. MERS public safety employees currently not participating in Social Security will have a supplemental defined contribution plan described further below. The key elements of the defined contribution component of the hybrid plan include:

- Mandatory 5.0 percent employee contribution and 1.0 percent employer contribution.
- Employees vest immediately, but three-year vesting period for employer contributions.
- Teachers not participating in Social Security will have an additional 4.0 percent contributed to the defined contribution plan, of which 2.0 percent will come from the teacher and 2.0 percent paid by the local employer.

- MERS police and fire personnel not participating in Social Security will have an additional 6.0 percent contributed to the defined contribution plan, of which 3.0 percent will come from the employee and 3.0 percent will be paid by the local employer.
- The State Investment Commission is responsible for administering and providing employee investment support.

Public Safety Related Pension Plans: The Act does not extend the hybrid plans to public safety type plans or the Judiciary.

MERS Police and Fire: MERS Police and Fire current pension programs include options for a 25-year plan and a 20-year plan, but most of the 43 public safety plans have the 20-year plan. The Act essentially moves all MERS public safety employees to the 25-year plan, with some modifications to final average compensation and contribution rates. The current 25-year plan requires 25 years of service or age 55 with 10 years to retire with full benefits. Final average salary is based on three years, and the service credit is 2.0 percent annually, with a maximum of 75.0 percent. Employee contributions are 7.0 percent or 8.0 percent if the plan includes the option for a 3.0 percent simple COLA.

The Act maintains the requirement for 25 years of service or age 55 with 10 years to retire with full benefits, and includes the 2.0 percent accrual rate. It permits members age 45 with at least 10 years of service currently eligible to retire before age 52 to retire at age 52; or retire at current retirement date but at accrued benefit as of June 30, 2012. However, the final average salary will be based on the highest five years of service, and those that are in an optional COLA plan will participate in the COLA as described above. Because most MERS public safety employees currently are in a 20-year plan, this will result in a lower accrual rate (from 2.5 percent to 2.0 percent) going forward for those employees.

MERS public safety employees will not participate in a defined contribution plan. However, those pension plans that do not participate in Social Security will have a supplemental defined contribution plan established to enhance their post-retirement security. MERS police and fire personnel not participating in Social Security will have an additional 6.0 percent contributed to a defined contribution plan, of which the employee will contribute 3.0 percent and 3.0 percent will come from the employer.

Social Security: In developing targeted minimum benefit requirements, the General Treasurer and Governor focused on achieving a range from 65.0 to 80.0 percent based on a combination of pension resources, personal savings and Social Security.

Contribution	Teachers	MERS Police and Fire
Employee	2.0%	3.0%
Employer	2.0%	3.0%
Total	4.0%	6.0%

However, in assessing different public employee’s ability to achieve this target, it became clear that about 6,800 teachers and certain MERS police and fire employees who do not participate in Social Security would not be able to achieve this goal without addressing Social Security issues.

Therefore, the Act requires teachers not participating in Social Security to have an additional 4.0 percent contributed to the defined contribution plan, of which half will come from the teacher and the other half from the local employer. Similarly, the Act requires that MERS police and fire personnel not participating in Social Security will have an additional 6.0 percent contributed to the defined contribution plan, of which half will come from the employee and the other half from the employer. Coupled with the defined benefit and defined contribution plans (teachers only), these changes will achieve the minimum benefit requirements for retirees.

**Combined Estimated Budgetary Impact on Local Employers
Estimated Increases in Employer Retirement Contributions
MERS Employer and Teacher Contribution Totals¹**

	FY2012 Contribution	FY2013 Baseline Contribution	FY2013 Actual DB Contribution	FY2013 Actual DC Contribution	Total Actual Contribution	Savings Actual vs. Baseline	Savings Actual vs. FY2012
Barrington	\$4,250	\$7,690	\$4,094	\$744	\$4,838	\$2,852	(\$588)
Bristol ¹	872	1,466	745	105	850	616	22
Burrillville	2,515	4,700	2,474	507	2,981	1,719	(466)
Central Falls ²	233	385	315	27	342	43	(109)
Charlestown ¹	582	939	476	20	496	443	86
Coventry	5,835	9,601	5,253	1,190	6,443	3,158	(608)
Cranston	15,307	27,252	13,325	2,871	16,196	11,056	(889)
Cumberland	4,616	7,669	4,580	841	5,421	2,248	(805)
East Greenwich	3,038	6,040	3,006	492	3,498	2,542	(460)
East Providence	8,190	13,674	8,026	1,154	9,180	4,494	(990)
Foster ¹	513	855	508	78	586	269	(73)
Glocester ¹	979	1,675	884	137	1,021	654	(42)
Hopkinton ¹	287	578	229	17	246	332	41
Jamestown	1,030	1,712	986	67	1,053	659	(23)
Johnston	4,421	7,338	4,127	713	4,840	2,498	(419)
Lincoln	3,629	5,997	3,310	737	4,047	1,950	(418)
Little Compton	321	538	286	69	355	183	(34)
Middletown	3,451	5,745	3,056	618	3,674	2,071	(223)
Narragansett	1,753	2,884	1,578	357	1,935	949	(182)
Newport	4,457	7,393	4,413	596	5,009	2,384	(552)
New Shoreham	523	876	484	36	520	356	3
North Kingstown	7,024	12,504	6,866	314	7,180	5,324	(156)
North Providence	4,295	7,885	4,725	249	4,974	2,911	(679)
North Smithfield	1,818	3,370	1,744	112	1,856	1,514	(38)
Pawtucket	9,729	16,826	9,455	566	10,021	6,805	(292)
Portsmouth	2,446	4,024	2,202	499	2,701	1,323	(255)
Providence	19,194	31,580	17,280	903	18,183	13,397	1,011
Richmond ¹	134	207	158	9	167	40	(33)
Scituate	1,928	3,144	1,795	340	2,135	1,009	(207)
Smithfield	3,196	5,151	2,636	529	3,165	1,986	31
South Kingstown	6,007	10,848	5,818	340	6,158	4,690	(151)
Tiverton	2,109	3,799	1,950	412	2,362	1,437	(253)
Warren ¹	675	1,183	638	20	658	525	17
Warwick	12,736	20,954	11,466	599	12,065	8,889	671
Westerly	3,566	5,858	3,223	719	3,942	1,916	(376)
West Greenwich ¹	289	479	259	10	269	210	20
West Warwick	3,361	5,529	3,026	158	3,184	2,345	177
Woonsocket	6,933	13,545	6,672	744	7,416	6,129	(483)
Total	\$152,242	\$261,893	\$142,068	\$17,899	\$159,967	\$101,926	(\$7,725)

Source: Gabriel Roeder Smith & Company.

¹ Excludes regional school district increase.

² Excludes Central Falls Schools.

\$ in thousands.

Locally-Administered Pension Plans

Municipal pension benefits are provided through either the state-run Municipal Employees' Retirement System (MERS) or through locally-administered plans, often referred to as non-MERS plans. Thirty-six non-MERS pension plans are locally-administered (not governed by state law) by 24 communities, of which half cover public safety employees. In other words, the local community is entirely responsible for administering and funding these plans. Many of these plans are included in collective bargaining agreements, and a few municipal employees are covered by plans administered by employee unions.

A 2010 Municipal Pension Study Commission presented the following findings:

- Retirement benefit costs represent the fastest growing component of municipal expenditures (including education aid) and represented more than one-fourth of all non-education related municipal spending in FY2010.ⁱ
- MERS has a funded ratio of 88.3 percent whereas, municipalities' locally administered non-MERS plans have a funded ratio of only 43.0 percent.ⁱⁱ
- The collective annual required contribution (ARC) for all municipal pensions was \$295.0 million in FY2009 of which \$161.0 million related to locally administered (non-MERS plans).
- Communities participating in MERS made 100 percent of their ARC payment, whereas collectively, the communities using locally administered pension programs (non-MERS) contributed approximately 82.0 percent of their ARC.
- Locally administered (non-MERS) plans are considered to be most at-risk because they do not have the appropriate level of available assets to meet the benefit obligations for retirees. When pension plans are chronically underfunded, the eventual costs to fund the plans become significantly larger and divert resources from other programs and initiatives.ⁱⁱⁱ
- Communities contributed \$100.8 million in payments to support Other Post-Employment Benefits (OPEB) plans. However, this was nearly \$90.0 million less than the annual required contribution (ARC) of \$190.0 million.
- There is nearly \$2.4 billion in unfunded OPEB liability throughout the State's municipalities and are estimated to have a collective funded ratio of less than 1.0 percent.^{iv}

Generally speaking, these plans cover police and fire and general municipal employees, and had combined total assets of \$1.4 billion as of June 30, 2010. However, these plans also have a combined Unfunded Actuarial Accrued Liability of \$2.1 billion as of June 30, 2010, resulting in an overall funded ratio of 40.3 percent. Of the 36 plans, 31 are less than 80.0 percent funded. Eighteen plans are less than 50.0 percent funded.

Recently, bond rating agencies have intensified their focus on how governments are managing pension and other post-employment benefit liabilities (OPEB); those that have not demonstrated responsible management of these costs and liabilities are being downgraded and consequently experiencing higher borrowing costs.

Municipalities Downgrade by Moody's Investors Service	Pension Plan Discussed as Rating Factor	
Central Falls	X	6/1/2011
Coventry	X	9/21/2011
East Providence	X	5/7/2012
Pawtucket		
Providence	X	3/26/2012
Warwick		
West Warwick	X	8/21/2011
Woonsocket	X	5/24/2012

Source: Office of the Auditor General/Moody's Investor Service

Municipality	Pension Plan	September		Unfunded Liability (\$000's)	% of ARC in FY2010
		2011 Funded Ratio	March 2010 Funded Ratio		
X Central Falls	Police & Fire (prior to 7/1/72) 1%	8.8%	8.1%	12,966	100.0%
X Smithfield	Police (prior to 7/1/99)	11.4%	17.9%	19,200	n/a
X Cranston	Police & Fire EE's Pension Plan (Prior to 7/1/95)	15.8%	15.1%	244,833	87.0%
X Central Falls	Police & Fire (after 7/1/72) John Hancock	16.2%	30.2%	33,592	0.0%
X Coventry	Police Pension Plan	16.5%	17.4%	39,847	74.0%
X Scituate	Police Pension Plan	23.4%	23.4%	7,481	67.0%
X West Warwick	Town Plan	26.3%	39.5%	98,006	43.0%
X Warwick	Police Pension I and Fire Pension Plan	26.6%	27.2%	210,372	67.0%
X Johnston	Fire (prior to 7/1/99)	26.8%	26.8%	47,625	94.0%
X Johnston	Police	27.6%	27.6%	37,210	87.0%
X Coventry	Town's Municipal EE Retirement Plan	29.3%	29.6%	9,538	68.0%
X Pawtucket	Post 1974 Policemen & Firemen	29.6%	38.8%	130,933	97.0%
X Providence	ERS of the City of Providence	34.1%	33.5%	828,484	96.0%
X Coventry	School's EE's Pension Plan	36.9%	36.9%	18,341	34.0%
X Newport	Firemen's Pension Plan	37.6%	39.5%	51,210	105.0%
X Tiverton	Policemen's Pension Plan	38.8%	40.3%	8,896	0.0%
X Cumberland	Town of Cumberland Pension Plan	38.9%	44.6%	15,431	16.0%
X East Providence	Firemen's & Policemen's Pension Plan	47.8%	57.1%	64,990	20.0%
X Westerly	Police Pension Plan	55.2%	54.3%	13,112	87.0%
X Newport	Policemen's Pension Plan	56.4%	61.5%	32,626	108.0%
Bristol	Police Pension Plan (prior to 3/22/98)	58.0%	64.2%	8,789	112.0%
Portsmouth	Employees of the Town of Portsmouth	60.6%	61.6%	21,275	100.0%
X North Providence	Police Pension Plan	68.5%	68.5%	9,370	49.0%
X Woonsocket	Police (pre 7/1/80) and Fire (pre 7/1/85) Pension Plan	69.1%	90.4%	30,205	1.0%
Lincoln	Town Retirement Plan	69.4%	89.6%	6,465	93.0%
X Narragansett	Town Plan	69.9%	79.8%	23,144	63.0%
Warwick	City Employees Pension Plan	70.9%	79.2%	35,661	100.0%
X Smithfield	Fire Pension Plan	74.1%	77.8%	3,796	39.0%
Little Compton	Town Employees Other than Certified Teachers	74.5%	78.5%	2,006	84.0%
Warwick	Warwick Public School Employee Pension Plan	76.9%	84.6%	9,722	100.0%
Middletown	Town Plan	78.0%	84.3%	12,021	102.0%
Warwick	Fire Pension Plan II	88.3%	97.0%	2,413	100.0%
Warwick	Police Pension II Plan	98.2%	104.9%	2,402	100.0%
Jamestown	Police Pension Plan	99.3%	100.4%	57	110.0%
Collective funded ratio		40.3%	42.8%		

X 24 Local Pension Plans Considered "At Risk" by State Auditor General.

Source: Office of the Auditor General, "Status of Pension and OPEB Plans Administered by RI Municipalities" (Sept. 2011).

The Rhode Island Retirement Security Act of 2011 has a number of provisions that begin to address the pension deficiencies in the locally administered programs. They include:

- Requiring non-MERS plans to complete actuarial reviews by April 1, 2012, with the State reimbursing communities for 50 percent of the cost of completing an actuarial study.
- Requiring non-MERS plans to complete an initial experience study no later than April 1, 2012, and every three years thereafter.
- Establishing a 14-member Commission to review existing legislation and local pension plan administrative practices.
- Requiring all locally-administered pension plans with funded ratios below 60.0 percent to submit a pension funding improvement plan within 180 days.
- Imposing penalties for non-compliance, including the withholding of state aid.

Locally-Administered Pension Plans Study Commission

To improve the funded ratios and the sustainability of locally-administered plans, the Commission has been working to develop recommendations for plan administrators and also provide opportunities to help communities understand the challenges they face in properly funding these plans. The Commission's work has been guided by the results of the updated actuarial valuations and experience studies received from individual communities. Although an experience study was conducted for a majority of the plans, not all communities adopted the recommendations within the experience study, such as changing assumptions regarding retirees and investments of the pension fund for the subsequent valuation.

As outlined above, plans that are determined to be in critical status (funded ratio of 60.0 percent or below) are also required to present a funding improvement plan to the Commission by November 1, 2012. The Commission is currently working to help provide guidance for communities as to what items may be included in municipal funding improvement plans. Most recently the Commission discussed presenting a checklist to communities that would ensure certain forms of documentation are presented as part of the plans. The Commission has discussed the possibility of recommending that communities include the following information in their submission:

- FY2014 funding of the ARC before and after changes are made.
- Amortization cost, method, period, interest rate, and rate of increase.
- Timeframe when municipality expects to emerge from critical status.
- Description of benefit changes (if applicable).
- Five-year forecast of revenue growth for the time period until plan is no longer in critical status.

The Commission will be submitting recommendations to the General Assembly for the 2013 legislative session relating to locally-administered pension plans. Although no formal recommendations have been offered or drafted as of the last meeting held on September 10, 2012, the Commission has discussed the potential of addressing the following issues in their final recommendations:

- Revised definition of critical status.
- Repercussions for non-compliance with guidelines for funding improvement plans.
- Pathway to MERS.
- Required funding of ARC and penalties for underfunding.

- Disability pension reform.

ⁱ RIPEC, “Comments on Your Government: Local Government Pensions” (January 2010).

ⁱⁱ Gabriel Roeder Smith & Company, “Employees’ Retirement System of Rhode Island: Actuarial Valuations as of June 30, 2009” (July 2010) and Office of the Auditor General, “Status of Pension and OPEB Plans Administer by Rhode Island Municipalities” (March 2010).

ⁱⁱⁱ Office of the Auditor General, “Status of Pension and OPEB Plans Administer by Rhode Island Municipalities” (March 2010) and RIPEC, “Comments on Your Government: Local Government Pensions” (January 2010).

^{iv} Office of the Auditor General, “Status of Pension and OPEB Plans Administer by Rhode Island Municipalities” (March 2010).

Bond Ratings

Rhode Island Municipal Credit Ratings (October 9, 2012) (A ratings guide can be found on the following page)

	Moody's	Fitch	Standard & Poor's
Barrington	Aa1	-	-
Bristol	Aa2	-	AA- (Stable)
Burrillville	Aa2	AA (Stable)	-
Central Falls	Caa1 (On review for upgrade)	-	C (Developing)
Charlestown	Aa2	-	-
Coventry	A1 (Negative)	-	-
Cranston	A2 (Negative)	A (Stable)	A (Stable)
Cumberland	A1 (Negative)	-	A (Stable)
East Greenwich	Aa1	-	AA+ (Stable)
East Providence	Ba1 (Stable)	-	BB+ (Positive)
Exeter	-	-	-
Foster	-	-	-
Glocester	-	-	AA (Stable)
Hopkinton	Aa3	-	-
Jamestown	Aa2	-	-
Johnston	A3 (Negative)	-	A- (Stable)
Lincoln	Aa2	AA (Stable)	-
Little Compton	Aa2	-	-
Middletown	Aa1	-	-
Narragansett	Aa2	-	AA- (Stable)
Newport	Aa2	-	AA (Stable)
New Shoreham	-	-	AA (Stable)
North Kingstown	Aa2	-	AA (Stable)
North Providence	Baa2 (Stable)	-	BBB- (Stable)
North Smithfield	Aa2	-	-
Pawtucket	Baa2 (Negative)	BBB- (Stable)	-
Portsmouth	Aa2	-	-
Providence	Baa1 (Negative)	BBB (Negative)	BBB (Negative)
Richmond	Aa3	-	-
Scituate	Aa2 (Negative)	-	AA- (Stable)
Smithfield	Aa2	-	AA (Stable)
South Kingstown	Aa1	-	-
Tiverton	-	-	-
Warren	Aa3	-	-
Warwick	Aa3	-	AA- (Stable)
Westerly	Aa2	-	AA (Stable)
West Greenwich	-	-	AA- (Stable)
West Warwick	Baa1 (Negative)	BBB+ (Negative)	-
Woonsocket	B2 (Negative)	B (Negative)	-
State of Rhode Island	Aa2 (Negative)	AA (Stable)	AA (Stable)

Note: Credit watches/outlooks, where assigned, are provided in parentheses. All rating information is subject to change.

Source: Moody's Investors Service, Standard & Poors, and Fitch Ratings.

MOODY'S RATINGS

Moody's long-term ratings are opinions of the relative credit risk of financial obligations with an original maturity of one year or more. They address the possibility that a financial obligation will not be honored as promised. Such ratings use Moody's Global Scale and reflect both the likelihood of default and any financial loss suffered in the event of default

Aaa - Obligations are rated Aaa are judged to be of the highest quality, with minimal credit risk.

Aa - Obligations rated Aa are judged to be of high quality and are subject to very low credit risk.

A - Obligations rated A are considered upper-medium grade and are subject to low credit risk.

Baa - Obligations rated Baa are subject to moderate credit risk. They are considered medium grade and as such may possess certain speculative characteristics.

Ba – Obligations rated Ba are judged to have speculative elements and are subject to substantial credit risk.

B – Obligations rated B are considered speculative and are subject to high credit risk.

Caa – Obligations rated Caa are judged to be of poor standing and are subject to very high credit risk.

Ca – Obligations rated Ca are highly speculative and are likely in, or very near, default, with some prospect for recovery of principal and interest.

C - Obligations rated C are highly speculative and are likely in, or very near, default, with little prospect for recovery of principal and interest.

Bonds are also assigned "1", "2" or "3" based on the strength of the issue within each category. Accordingly, "A1" would be the strongest group of A securities and "A3" would be the weakest A securities.

The following table shows the comparable investment grade ratings of the three major rating agencies:

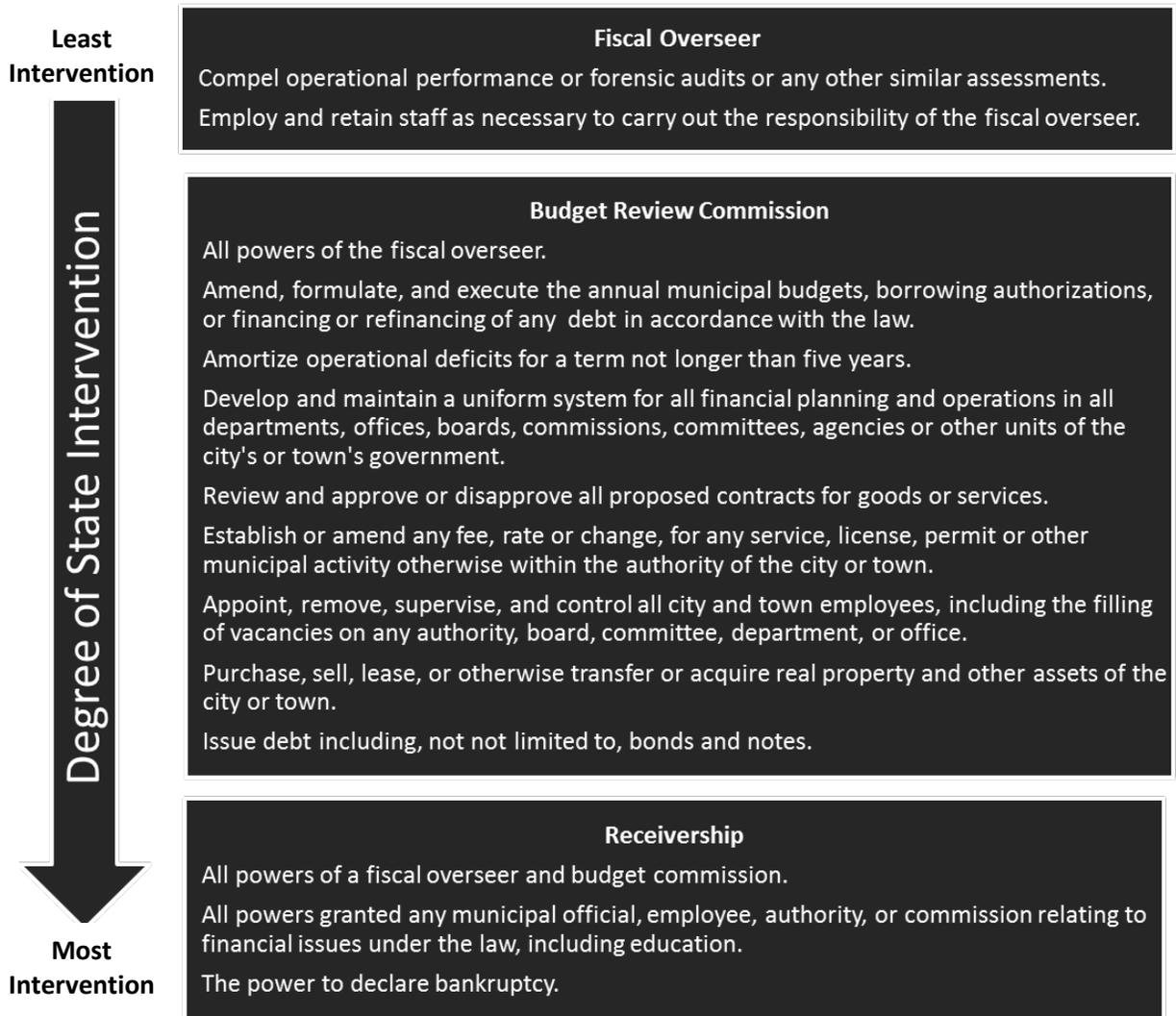
	Moody's	Standard & Poor's	Fitch
Best Quality	Aaa	AAA	AAA
High Quality	Aa1	AA+	AA+
	Aa2	AA	AA
	Aa3	AA-	AA-
Upper Medium Quality	A1	A+	A+
	A2	A	A
	A3	A-	A-
Medium Quality	Baa1	BBB+	BBB+
	Baa2	BBB	BBB
	Baa3	BBB-	BBB-

Source: *WM Financial Strategies and Moody's Investors Service.*

An Act Providing for the Financial Stability of Cities and Towns

In response to the City of Central Falls filing a receivership petition in Providence Superior Court and the appointment of a receiver, “An Act Providing the Financial Stability of Cities and Towns” was passed by the General Assembly in June 2010. The legislation:

- Provides a mechanism for the State to work with cities and towns undergoing financial distress that threatens the fiscal well-being, public safety and welfare of such cities and towns, or other cities and towns or the State.
- Provides stability to the municipal credit markets for Rhode Island and its cities and towns through a predictable, stable mechanism for addressing cities and towns in financial distress.
- The Act creates three levels of State oversight: a fiscal overseer, a budget review commission, and the receivership, and gives the State, acting primarily through the Department of Revenue, in consultation with the Auditor General, the power to exercise varying levels of support and control, depending on the circumstances.



Currently, the City of Central Falls is under the purview of a state-appointed receiver, and the Cities of Woonsocket and East Providence are under the purview of a Budget Review Commission. The Commission consists of five members: three designees of the Director of Revenue, the elected chief executive officer of the city or town, and the President of the city or town council.

ADDITIONAL PROVISIONS OF THE FISCAL STABILITY ACT

- Allows the Director of Revenue, in consultation with the Auditor General, to appoint a receiver in the event of a fiscal emergency, in circumstances that do not allow for appointment of a fiscal overseer or a budget review commission
- Prohibits municipalities from filing for judicial receivership and clarifies that the Superior Court has no jurisdiction to hear such matters.
- A fiscal overseer, budget commission or receiver is not allowed to reject or alter any existing bargaining agreement, unless by agreement, during the term of such collective bargaining agreement.
- Provides a mechanism for the Director of Revenue to pay interest or principal on bonds, notes or certificates of indebtedness when it is unlikely that a city, town or regional school district will be able to pay this debt. Allows the State to charge these costs against state aid (excluding school operational aid) due to the city, town or regional school district.

TRIGGERS

Any one of the following circumstances can warrant intervention on the part of the State:

- A municipality projects a deficit in the municipal budget in the current fiscal year and again in the upcoming fiscal year.
- A municipality has not filed its audits with the Auditor General by the deadlines required by law for two (2) successive fiscal years (not including extensions authorized by the Auditor General).
- A municipality has been downgraded by one of the nationally recognized statistical rating organizations.
- A municipality is otherwise unable to obtain access to credit markets on reasonable terms.
- A municipality that does not promptly respond to requests made by the Director of Revenue or the Auditor General, or the chairpersons of the House or Senate Finance Committees for financial information.

CENTRAL FALLS

Since July 2010, the City of Central Falls has been operating under the oversight of a state-appointed receiver pursuant to RIGL 45-9-1. According to papers filed with the Court, the City had a structural deficit of about \$6.1 million on an annual general fund budget of \$16.4 million (37.3 percent). It was projected to run out of cash and not be able to pay its bills by August 31, 2010, if additional action was not taken. In addition, the City had an unfunded liability of approximately \$80.0 million for pensions and other post-employment benefits due to the City's failure to make regular contributions for its workers. Furthermore, John Hancock notified the City that in October 2011 the plan would no longer have sufficient assets, absent a contribution from the City, to make pension payments to the retirees (except for seven guaranteed retirees). The City had a Caa1 bond rating (junk) from Moody's Investors Service.

On August 1, 2011, the state-appointed receiver filed for Chapter 9 bankruptcy in federal Bankruptcy Court. The filing allowed the receiver to revoke the City's three collective bargaining agreements (police, fire, and general employees) and implement changes to pensions and retiree and active employee health plans effective immediately, including 20.0 percent co-shares for health insurance premiums and aggregate savings of at least \$1.4 million from reduced pension payments to the retirees of the Central Falls Police and Fire Departments. On September 22, 2011, the State Receiver filed a "Plan for the Adjustment of Debts of the City of Central Falls" with the United States Bankruptcy Court, District of Rhode Island.

On November 23, 2011, the Receiver announced that 5-year agreements had been reached with fire, police and municipal workers, which are estimated to save the City \$1.0 million annually; and on November 30, it was announced that police and fire retirees had formally dropped their opposition to the City's bankruptcy filing in anticipation of a potential agreement on the restructuring of pension benefits, contingent on the General Assembly's creation of a fund to offset pension cuts of up to 55.0 percent. The 2012 General Assembly created a \$2.6 million fund to help offset pension reductions through 2016.

On September 6, 2012, the Court officially accepted the City's six-year financial reorganization plan. The City emerged from bankruptcy on October 25, 2012; and on October 26, 2012, Moody's Investors Service upgraded Central Falls' credit rating from Caa1 to B2 with a positive outlook. The receivership is expected to continue until January, at which time the powers of the Mayor and the City Council will be restored. The bankruptcy court will retain jurisdiction over the case for five years, which will allow the court to order the City to comply with the plan if involved parties believe the City administration is not keeping within the pre-set municipal budget.

EAST PROVIDENCE

On July 28, 2011, the Office of the Auditor General and the Department of Revenue requested the City of East Providence submit a deficit reduction plan. Although the municipal general fund ended the FY2011 with a positive fund balance of \$4.5 million, the School Department's fund balance as of October 31, 2010, (the City's fiscal year end) was a negative \$6.3 million. This is the same negative fund balance as FY2009. In addition, the School Department incurred an operating loss of \$908,501 for FY2011. This brought the total school department deficit to \$7.2 million as of October 31, 2011.

On September 16, 2011, the City submitted a corrective action plan to the Auditor General and the Department of Revenue, which was ultimately not approved.

On November 14, 2011, the Rhode Island Director of the Department of Revenue appointed a state police officer, Major Stephen M. Bannon, to oversee the City's finances and to assist the City in eliminating its budget deficit. The appointment of an overseer is the first step in a three-tiered financial intervention program for municipalities.

The City had a budget deficit of \$7.2 million, attributed to the school department, with \$5.0 million owed to Bradley Hospital in East Providence for services to the City's special needs students. The appointment of the state overseer was prompted by Bradley Hospital's threat to suspend services.

In December 2011, the overseer reported to the Director of Revenue that the City was unable to present a balanced municipal budget, faced a fiscal crisis that posed an imminent danger to the safety of the citizens of East Providence, and that the City would not achieve fiscal stability without the assistance of a budget commission. On December 20, 2011, the Director of the Department of Revenue appointed a 5-member budget commission, which continues to oversee the finances of the City.

In May, Moody's retained the City's bond rating at Ba1 (junk status); however, the outlook improved from "on review for downgrade" to "stable". Moody's attributed the stable rating to the budget commission's institution of a phase out of the City's homestead exemption, institution of an early-pay tax

discount program, budgeting full funding of the City's required annual pension contribution, and the ongoing work of the budget commission.

WOONSOCKET

The City of Woonsocket is currently under the oversight of a budget commission, after an independent audit revealed that the City's school department ended FY2011 with a deficit of \$2.7 million. A separate audit by the Department of Education indicated a projected deficit of \$7.3 million for FY2012, resulting in a cumulative deficit of \$10.0 million. A fiscal overseer was never appointed for the City.

On May 24, 2012, Moody's Investors Service downgraded the bond rating of the City of Woonsocket from Ba2 to B2. This was on the heels of a January 17, 2012, Moody's downgrade from Ba1 to Ba2 with a negative outlook, and a 2011 downgrade from Baa2 to Ba1. The current rating is considered below investment grade. On March 8, 2012, Fitch also lowered its bond rating of the City three steps, from BB- to BBB- with a negative watch, which is below investment grade.

The City's most pressing financial concern outside of the school deficits is its ability to meet its pension fund obligations. In FY2003, the City issued \$90.0 million in tax exempt pension obligation bonds to fund its private police and fire pension plan; however, recent declines in the market value of this plan require the city to fund an Annual Required Contribution (ARC). An actuarial report as of July 1, 2011, reports an unfunded actuarial accrued liability of \$42.3 million.

PROVIDENCE

In March 2011, a Municipal Finances Review Panel reported that Providence had a \$635.0 million budget and a \$110-million deficit for FY2012. To address the deficit, the City took several measures including closing five schools, obtaining union concessions, and instituting hiring freezes. Despite lowering the city's projected budget deficit from \$110.0 million to \$22.0 million, Moody's downgraded the City's credit rating from A3 to Baa1, and Fitch Ratings downgraded the city from A to BBB, or two steps above junk bond status.

The City of Providence continues to experience financial difficulties; however, progress has been made by the City administration to close the projected deficit. In May the City reached an agreement with current city police, firefighters and municipal laborers, as well as retirees, on pension and healthcare benefits, which is expected to save the City \$18.5 million in FY2013.

The City has entered into Payment in Lieu of Tax (PILOT) agreements with Care New England, which operates Butler Hospital and Women and Infants Hospital; CharterCARE Health Partners, which operates Roger Williams Medical Center and St. Joseph Health Services; and Lifespan, which includes Rhode Island Hospital, Miriam Hospital, and Hasbro Children's Hospital. The City has also entered into PILOT agreements with Johnson & Wales University, Brown University, and Rhode Island School of Design.

The State has not intervened on a formal level with the City of Providence.

WEST WARWICK

In June, the Town of West Warwick adopted a budget which included funds to settle a long-standing lawsuit over maintenance of effort funding with the Town's School Department; however, the Town continues to underfund its pension plans, and could deplete its assets within five years. Currently, the plan is in "critical" status, and is only 26.0 percent funded. On August 5, 2011, Moody's Investors Service downgraded the Town's bond rating to Baa1 from A1, with a negative outlook. Moody's cited

the Town's sizable, unfunded pension liability as one of the reasons for the downgrade. On June 26, 2012, Moody's reaffirmed the Baa1 rating and negative outlook.

A letter from the Director of the Department of Revenue to the Town, dated August 20, 2012, details the challenges facing the Town, including rebuilding capacity in financial management staff as a result of attrition; addressing the cumulative school deficit; addressing projected operating deficits over the next 5 years; addressing large pension and OPEB unfunded liabilities; and creation of a capital budget to address infrastructure needs. The Town must also submit a funding improvement plan to the Study Commission on Locally-Administered Pension Plans by November 11, 2012.

The Director of Revenue expects to meet with City officials on a regular basis to track the Town's progress in addressing the challenges listed above; however, the State has not appointed a fiscal overseer or invoked the powers available to it under the Municipal Financial Security Act.

PAWTUCKET

In December 2010, the Department of Revenue requested information from the City regarding its plans for addressing its financial deficits. The Department was concerned with FY2011 projected shortfalls and the School Department's unrestricted fund deficit, as well as the cumulative deficit from prior years. At that time, the City was projecting a total deficit of \$7.5 million for FY2011 (\$6.5 million municipal; \$1.0 million school department), due in large part to a reduction in State Aid from the phase out of the Motor Vehicle Excise Tax reimbursement, which the City did not budget. In February 2011, Moody's downgraded the City's bond rating from A1 to Baa2, with a negative outlook.

At that time, the City undertook a number of steps to address its fiscal situation including layoffs, increase health care co-shares, and furlough days. The City incurred a deficit of \$1.4 million in FY2011, bringing the total fund balance to \$2.4 million, of which \$952,951 is unassigned. The School Department reported positive results of \$744,439 for FY2011; however, the cumulative deficit remains at \$2.7 million.

In January, 2012, for the second year in a row, the City sought and received General Assembly approval to issue tax anticipation notes in the amount of \$12.6 million to address cash flow issues and to extend the date for repayment into the following fiscal year, rather than the fiscal year in which the funds are borrowed as required by the Pawtucket City Charter.

The City has an unfunded actuarial accrued liability (UAAL) of \$140.1 million in its Police and Firefighters Pension Fund (30.3 percent funded); and in early July, the School Department announced that it incurred a deficit of at least \$1.5 million for FY2012, which will need to be addressed. The City is currently participating on the Governor's Task Force for Municipal Shared Services.

The City is currently working with the Department of Revenue; however, its financial issues have not risen to the level where the Director of the Department of Revenue would recommend State intervention under the Fiscal Stability of Cities and Towns Act.

NORTH PROVIDENCE

For the fiscal year ending June 30, 2009, the Town incurred a deficit of \$3.3 million, bringing the cumulative General Fund deficit to \$8.9 million. The School had incurred a deficit of \$1.9 million, bringing the cumulative School unrestricted fund balance deficit to \$1.4 million. In July 2010, the Auditor General and the Director of the Department of Revenue approved a request by the Town to issue \$10.5 million of deficit reduction bonds, as provided in the Town's deficit reduction plan.

The Town's unassigned fund balance as of June 30, 2011, was a positive \$2.2 million, and the school unrestricted fund reported a deficit balance of \$182,478. The Town has a Moody's credit rating of Baa2,

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and the outlook was recently upgraded from negative to stable. The Town's Police Pension Plan has an unfunded actuarial accrued liability (UAAL) of \$16.6 million (45.3 percent funded) as of June 1, 2010, when the last actuarial valuation was completed.

The State has not intervened on a formal level with the Town of North Providence.

CRANSTON

For FY2013, the City of Cranston became eligible for the Distressed Community Relief program, ranking in the lowest 20.0 percent of three of the preceding four indices (Cranston was in the bottom 26.0 percent for percent of personal income to full value of property). (See Distressed Communities Relief Program in the Municipal Aid section of this publication).

On February 24, 2012, Moody's Investors Service assigned an A2 underlying rating to the City's \$24.6 million General Obligation Bonds, Series A & B. Concurrently, Moody's has downgraded to A2 from A1 the underlying rating on \$115.0 million of outstanding general obligation bonds, and to A3 from A2 the rating on \$1.8 million in Certificates of Participation.

Moody's reports that the downgrade and negative outlook reflects the City's reduced financial flexibility following a series of reserve reductions, largely due to declining state aid and consecutive school fund deficits, resulting in an accumulated \$8.9 million Unrestricted School Fund Deficit. The rating and outlook also reflect the weak funding status of the City's Police and Fire Pension Plan (17.8 percent funded as of July 1, 2011) and continued underfunding of the annual required contribution, which is equivalent to deficit financing. The unfunded pension liability is expected to increase as the City continues to underfund this annual pension obligation. Moody's believes the City will continue to be challenged to restore and maintain long-term structural balance and fully fund its pension obligations given continued revenue weakness and ongoing expenditure demands.

The State has not intervened on a formal level with the City of Cranston.

School Aid

The majority of state aid goes to support local school expenditures throughout the State. School aid has evolved a great deal over time. From 1995 to 2010, the State did not have an established school aid formula, when Rhode Island ceased using its power-equalizing formula and moved towards annually distributing school aid in an ad hoc fashion. However, the FY2010 General Assembly passed the Education Adequacy Act (2010-S-2770 Substitute A as Amended) and established an education funding formula. The new formula, which went into effect for the FY2012 school year, increases aid to districts where student enrollments have increased or that serve high numbers of low-income students, and reduces aid to districts that have experienced a decrease in the number of enrolled students or serve fewer poor students. It is designed to provide equity, transparency and consistency in the way direct school aid to districts, charter schools and state-operated schools is distributed.

Rhode Island spends more per pupil and on teacher salaries than the national average. According to the U.S. Census Bureau, in FY2009, Rhode Island spent \$13,707 per pupil, ranking it 9th highest in the nation, and was approximately 30.6 percent higher than the national average of \$10,499 per pupil. Among the New England States, Rhode Island per-pupil spending trailed Vermont, Connecticut, and Massachusetts. In terms of teacher salaries, Rhode Island's average teacher salary of \$59,686 ranked 9th highest, and was 8.1 percent above the national average of \$55,202. Among the other New England states, Rhode Island teacher salaries were behind both Massachusetts and Connecticut.

Rhode Island also stands out in terms of the percentage of public school revenue supported by local sources. Nationally, states provide approximately 46.7 percent of the funding to support public education, whereas Rhode Island provides 35.3 percent, ranking Rhode Island 46th among the 50 states. Among the other New England states, Rhode Island's support to public education was comparable to Massachusetts (39.4 percent), Connecticut (38.0 percent), and New Hampshire (36.9 percent). Conversely, the level of support coming from local sources is much higher than average. Rhode Island's public schools receive approximately 55.2 percent of their support from local sources as compared to 43.8 percent nationally, which ranks Rhode Island 8th highest among the 50 states.

Despite the relative position of the State in terms of support, Rhode Island has provided increases in its support for schools. Since FY2000, total State school aid has increased from \$583.4 million to \$905.2 million in FY2013, an increase of \$321.8 million, or 55.2 percent. Rhode Island distributed school aid using the education formula and categorical funds, as well as the number of group homes located within each jurisdiction. In addition, the State reimburses communities for a portion

New England Ranking of Per Pupil Spending and Teacher Salaries

Region and State	Per Pupil Spending		Per Pupil Personnel Income FY2008-2009 ¹		2009-2010 Average Salary for Classroom Teachers ²	
	FY2008-2009 ¹	Rank	2009 ¹	Rank	Rank	Rank
50 States and DC	\$10,499		\$41.29		\$55,202	
Regional Average	13,628		46.17		56,657	
Connecticut	14,531	2	40.64	6	64,350	2
Maine	12,304	6	49.03	2	46,106	6
Massachusetts	14,118	3	41.64	5	69,273	1
New Hampshire	11,932	7	42.29	4	51,443	4
Rhode Island	13,707	4	46.51	3	59,686	3
Vermont	15,175	1	56.93	1	49,084	5

¹ Source: Public Education Finances 2009, U.S. Census Bureau

² Source: National Education Association, Rankings and Estimates, December 2010

Percentage Distribution of School Revenue for New England

Region and State	New England		
	Federal	State	Local
50 States and DC	9.5%	46.7%	43.8%
Connecticut	4.2	38.0	57.8
Maine	9.6	43.4	47.0
Massachusetts	7.8	39.4	52.8
New Hampshire	5.4	36.9	57.7
Rhode Island	9.5	35.3	55.2
Vermont	6.8	88.7	4.5

Source: Public Education Finances 2009, U.S. Census Bureau

of the cost for renovation and repair of school facilities and construction of new school facilities, and provides 40.0 percent of the employer pension contributions for teacher retirement. FY2013 School Aid of \$905.2 million represents an increase of 3.9 percent over FY2012. Most of the growth in aid has been driven by the funding formula.

EDUCATION FUNDING FORMULA (RIGL 16-7.2)

The FY2012 budget provides \$739.6 million to fully fund the second year of the new funding formula, along with funding for the five categorical aid areas created through the Education Adequacy Act, for a total of \$742.7 million.

The Education Adequacy Act (2010-S-2770, Substitute A as Amended) provides a new school funding formula that creates a single methodology for distributing state aid to all public schools. The core principle behind the formula is that state funding should follow the student; therefore, the distribution could change annually based on shifts in enrollment. This formula applies to all public schools, charter schools, the Davies Career and Technical School, and the Metropolitan Career and Technical Center. There are no changes in funding methodology for the School for the Deaf, since it is an education program that already has a state, federal and local share.

The formula establishes a per-pupil spending amount (\$8,679 in FY2013) and allocates this funding based on student enrollment, adjusting for poverty (\$3,679 in FY2013, as measured by the number of students enrolled in the federal free or reduced price lunch program). It also accounts for local revenue generating capacity and overall poverty level by using the EWAV (Equalized Weighted Assessed Valuation) and the concentration of pre-kindergarten through sixth grade students eligible for free or reduced price lunch.

The Act includes a multi-year transition plan to ease districts into the new formula, allowing time to adjust for gains or losses in education aid. The plan provides a transition period of ten years for those districts projected to receive less school aid than they did through the aid distribution in FY2011, and seven years for those districts projected to receive more aid. FY2013 represents the second year of the transition plan.

HOW THE FORMULA WORKS

Step 1: Student Enrollment: Student enrollment is based on resident average daily membership (RADM), which refers to the average number of students who are residents of the community and were enrolled in the school district during the prior school year. The FY2013 Budget is based on the student enrollments as of March 2012.

Step 2: Core Foundation Amount: The core foundation amount provides a base level of funding per pupil (\$8,679 in FY2013). It is derived from the average of northeast regional expenditure data from Rhode Island, Massachusetts, Connecticut and New Hampshire, as published by the National Center for Education Statistics (NCES).

Step 3: High Need Student Weight (40.0 percent): The Act includes a single factor to adjust the core foundation amount to address the effects of poverty and other factors influencing educational need. The high need student weight, or student success factor, increases the core foundation amount by 40.0 percent, or \$3,472, for each student eligible for free or reduced lunch (FRPL), based on the FY2013 core foundation amount of \$8,679 ($\$8,679 \times 0.40 = \$3,472$).

Step 4: Total Foundation Budget: The total foundation budget for each school district is calculated by adding the product of the total core amount and the total high need student weight.

$$\text{Total Foundation Budget} = (\$8,679 \times \text{RADM}) + (0.40 \times \$8,679 \times \text{FRPL})$$

Step 5: State Share Ratio: The formula establishes a new share ratio calculation to determine the State's share of the total foundation budget. The calculation uses two variables: the equalized weighted assessed valuation (EWAV) and the concentration of child poverty (percent of pre-kindergarten-grade 6 enrollment in the subsidized lunch program). By squaring each factor, the formula amplifies the greater of the two variables. School districts with less capacity to raise revenue and a higher concentration of child poverty than the state as a whole look relatively poorer, while those school districts with higher capacity to raise revenue and lower concentrations of poverty compared to the state look relatively wealthier.

$$\text{State Share Ratio (SSR)} = \sqrt{\frac{a^2 + b^2}{2}}$$

Where a = EWAV and b = %PK-6 FRLP

The EWAV share ratio is based on each community's total assessed property value, relative to property values across the state. Community property value includes motor vehicles, personal property and payments in lieu of taxes. These values are brought to full market value based on market experience and then adjusted by the median family income. The higher the EWAV share ratio, the less capacity the community has relative to the rest of the state for generating locally derived revenue to support schools. The Act adjusts the EWAV share ratio calculation to increase the state's share of the total foundation budget.

The enacted distribution includes an update to the median family income component of the EWAV. The adjustment affects communities differently, as an update has not been done since the data reported from the 2000 Census was incorporated. The update uses the socio-economic data from the American Community Survey (ACS) provided by the United States Census Bureau. The data used in the EWAV is comprised of a five-year rolling average. For example, the data in the FY2013 Budget is the average of the data collected between January 1, 2005, and December 31, 2009, released in December 2010.

Step 6: State Share of Foundation Budget: The State's share of the total foundation budget equals the state share ratio, discussed above, times the total foundation budget. Unlike many foundation formulas, the statute neither requires a minimum nor sets a maximum local spending level beyond the limits in the maintenance of effort requirements. Nonetheless, a municipality would be responsible, to some degree, for the difference between the state share and the total foundation amount.

Step 7: Data Updates: The statute calls for annual updates to the community wealth and student data. The new data is run through the formula. The difference between the new State share of the foundation budget and the amount from the previous year is divided by the remaining years of the applicable transition period. In the FY2013 Budget, for districts receiving more aid under the new formula, the difference is divided by 6. For districts receiving less state funding, the difference is divided by nine. The district's formula aid is adjusted by the corresponding amount.

The data updates also include adjustments for changes in enrollment at charter schools, Davies Career and Tech, and the Met Center. Generally, the number of students from a district attending one of these schools does not vary significantly, unless a new charter school opens or an existing school expands. Changes in district funding for students attending a charter or state school are spread over the remaining years of the applicable transition period to provide time for districts to plan for the change in funding. In FY2013, for districts receiving more aid under the new formula, the difference is divided by six. For districts receiving less state funding, the per-pupil aid is divided by nine. Upon full implementation of the formula, funding will follow the student; therefore, the sending districts will not receive funding for these students.

TABLES

Table 1 provides a step-by-step calculation of each district's recommended distribution. Table 2 provides the education aid for each district in year two of the transition period, including categorical funding.

Table 1: FY2013 Education Aid Calculator

Districts	PK-12 RADM (4/13/12)	FRPL RADM (4/13/12)	Student Success			Total Foundation	%FRPL PK6	EWAV	State Share Ratio	State Funding (Data Updates)	FY2012 (Includes stabilization)	Change in State Funding	Year 2 formula Change if + is /; - is L/U
			Core Instruction Funding (C = \$8,679)	Factor Funding (F = 0.4 * \$8,679 = \$3,472)	D+G=H								
Barrington	3,337	194	\$28,961,823	\$673,490	\$29,635,313	4.7%	29.5%	21.1%	\$6,259,789	\$2,362,934	\$3,896,855	\$649,476	
Burrillville	2,433	855	\$21,116,007	\$2,968,218	\$24,084,225	36.0%	65.7%	53.0%	\$12,758,378	12,585,056	173,322	28,887	
Charlestown	957	280	\$8,305,803	\$972,048	\$9,277,851	25.9%	0.0%	18.3%	\$1,699,152	1,670,986	28,166	4,694	
Coventry	4,946	1,457	\$42,926,334	\$5,058,121	\$47,984,455	28.5%	60.4%	47.2%	\$22,660,681	18,550,838	4,109,843	684,974	
Cranston	10,077	4,121	\$87,458,283	\$14,306,464	\$101,764,747	40.7%	63.0%	53.0%	\$53,971,257	34,041,838	19,929,419	3,321,570	
Cumberland	4,475	1,007	\$38,838,525	\$3,495,901	\$42,334,426	22.0%	53.4%	40.8%	\$17,288,729	12,644,415	4,644,314	774,052	
East Greenwich	2,341	159	\$20,317,539	\$551,984	\$20,869,523	7.0%	20.9%	15.6%	\$3,252,601	1,502,848	1,749,753	291,625	
East Providence	5,532	2,638	\$48,012,228	\$9,158,081	\$57,170,309	48.5%	59.5%	54.3%	\$31,031,683	24,736,571	6,295,112	1,049,185	
Foster	273	56	\$2,369,367	\$194,410	\$2,563,777	17.6%	49.5%	37.1%	\$952,402	1,241,245	(288,843)	(32,094)	
Glocester	545	109	\$4,730,055	\$378,404	\$5,108,459	22.0%	56.5%	42.9%	\$2,190,168	2,860,166	(669,998)	(74,444)	
Hopkinton	1,224	326	\$10,623,096	\$1,131,742	\$11,754,838	24.7%	56.6%	43.7%	\$5,133,009	5,613,789	(480,780)	(53,420)	
Jamestown	672	60	\$5,832,288	\$208,296	\$6,040,584	6.3%	0.0%	4.5%	\$269,094	369,267	(100,173)	(11,130)	
Johnston	3,004	1,292	\$26,071,716	\$4,485,307	\$30,557,023	40.8%	46.9%	44.0%	\$13,431,628	9,937,661	3,493,967	582,328	
Lincoln	3,148	859	\$27,321,492	\$2,982,104	\$30,303,596	27.6%	46.0%	37.9%	\$11,494,933	6,864,255	4,630,678	771,780	
Little Compton	412	60	\$3,575,748	\$208,296	\$3,784,044	15.5%	0.0%	11.0%	\$414,737	313,858	100,879	16,813	
Middletown	2,393	686	\$20,768,847	\$2,381,518	\$23,150,365	32.3%	35.0%	33.7%	\$7,796,364	8,927,808	(1,131,444)	(125,716)	
Narragansett	1,437	289	\$12,471,723	\$1,003,292	\$13,475,015	23.0%	0.0%	16.3%	\$2,191,503	1,488,608	702,895	117,149	
Newport	2,049	1,272	\$17,783,271	\$4,415,875	\$22,199,146	67.1%	0.0%	47.4%	\$10,532,799	10,221,213	311,586	51,931	
New Shoreham	112	13	\$972,048	\$45,131	\$1,017,179	13.0%	0.0%	9.2%	\$93,503	61,851	31,652	5,275	
North Kingstown	3,986	873	\$34,594,494	\$3,030,707	\$37,625,201	23.1%	34.3%	29.2%	\$11,002,075	10,674,839	327,236	54,539	
North Providence	3,261	1,343	\$28,302,219	\$4,662,359	\$32,964,578	39.5%	65.6%	54.1%	\$17,849,048	12,460,586	5,388,462	898,077	
North Smithfield	1,767	309	\$15,335,793	\$1,072,724	\$16,408,517	16.1%	53.8%	39.7%	\$6,515,700	4,500,715	2,014,985	335,831	
Pawtucket	8,376	6,553	\$72,695,304	\$22,749,395	\$95,444,699	79.4%	85.1%	82.3%	\$78,550,378	63,745,780	14,804,598	2,467,433	
Portsmouth	2,514	365	\$21,819,006	\$1,267,134	\$23,086,140	13.5%	8.1%	11.1%	\$2,570,038	5,072,149	(2,502,111)	(278,012)	
Providence	22,551	19,955	\$195,720,129	\$69,275,778	\$264,995,907	89.4%	85.6%	87.5%	\$231,926,077	183,074,948	48,851,129	8,141,855	
Richmond	1,170	199	\$10,154,430	\$690,848	\$10,845,278	17.9%	55.6%	41.3%	\$4,479,356	5,537,977	(1,058,621)	(117,625)	
Scituate	1,519	251	\$13,183,401	\$871,372	\$14,054,773	19.0%	41.9%	32.5%	\$4,572,242	3,150,368	1,421,874	236,979	
Smithfield	2,352	343	\$20,413,008	\$1,190,759	\$21,603,767	13.0%	27.7%	21.6%	\$4,674,333	4,718,805	(44,472)	(4,941)	
South Kingstown	3,421	616	\$29,690,859	\$2,138,506	\$31,829,365	18.9%	14.5%	16.8%	\$5,361,429	8,441,331	(3,079,902)	(342,211)	
Tiverton	1,830	479	\$15,882,570	\$1,662,896	\$17,545,466	27.8%	46.5%	38.3%	\$6,721,414	5,329,648	1,391,766	231,961	
Warwick	9,579	3,158	\$83,136,141	\$10,963,313	\$94,099,454	31.7%	43.7%	38.2%	\$35,921,966	33,436,513	2,485,453	414,242	
Westerly	3,128	1,160	\$27,147,912	\$4,027,056	\$31,174,968	37.8%	0.0%	26.7%	\$8,332,644	5,982,372	2,350,272	391,712	
West Warwick	3,420	1,679	\$29,682,180	\$5,828,816	\$35,510,996	52.3%	68.3%	60.8%	\$21,600,759	19,131,939	2,468,820	411,470	
Woonsocket	5,675	4,140	\$49,253,325	\$14,372,424	\$63,625,749	74.9%	87.4%	81.4%	\$51,785,204	44,843,051	6,942,153	1,157,025	
Bristol-Warren	3,467	1,216	\$30,090,093	\$4,221,466	\$34,311,559	33.2%	31.2%	32.2%	\$11,053,648	17,880,233	(6,826,585)	(758,509)	
Exeter-West Greenwich	1,716	236	\$14,893,164	\$819,298	\$15,712,462	13.6%	39.3%	29.4%	\$4,620,439	6,306,153	(1,685,714)	(187,302)	
Charlton	-	-	-	-	-	-	-	-	-	344,882.00	(344,882.00)	(38,320)	
Foster-Glocester	1,237	196	\$10,735,923	\$680,434	\$11,416,357	16.2%	54.2%	40.0%	\$4,566,600	5,157,169	(590,569)	(65,619)	
Central Falls	2,580	2,305	\$22,391,820	\$8,002,038	\$30,393,858	91.4%	94.8%	93.1%	\$28,301,399	41,131,440	(12,830,041)	(1,425,560)	
District Total	132,916	61,109	\$1,153,577,964	\$12,146,004	\$1,365,723,968				\$743,827,162	\$636,916,105	\$106,911,057	\$19,575,961	
Charter School Total ¹	5,237	3,656	\$45,451,923	\$2,186,179	\$57,638,102				\$44,623,440	43,204,583	1,418,857	3,857,782	
Davies	875	612	\$7,594,125	\$2,039,918	\$9,634,043				\$7,712,164	14,090,211	(6,378,047)	(708,672)	
Met School	883	591	\$7,663,557	\$1,969,921	\$9,633,478				\$6,944,036	12,236,284	(5,292,248)	(588,028)	
Total	139,911	65,968	\$1,214,287,569	\$228,342,023	\$1,442,629,592				\$803,106,802	\$706,447,183	\$96,659,619	\$22,137,042	

¹ The total Year 2 formula change for charter school includes adjustments for growth.

Table 2: FY2013 Education Aid
Categorical Funding ¹

Local Education Agency	FY2012 Enacted (net Jobs Fund, excluding categoricals and Group Home)		General Revenue		Year 2 Formula		Acceleration		FY2013 Education Aid (excluding categoricals and Group Home)		1% Regional Bonus		Year 2 Transportation		High-Cost Special Education		FY2013 Education Aid (including categoricals) ²		FY2012 Education Aid (including categoricals) ²		Change to FY2012 (including categoricals) ²			
	Agency	Restoration Jobs Fund)	Change	Year 2 Formula	Change	Year 2 Formula	Change	Year 2 Formula	Change	Year 2 Formula	Year 2 Formula	Year 2 Formula	Year 2 Formula	Year 2 Formula	Year 2 Formula	Year 2 Formula	Year 2 Formula	Year 2 Formula	Year 2 Formula	Year 2 Formula	Year 2 Formula	Year 2 Formula	Year 2 Formula	Year 2 Formula
Barrington	\$2,282,481	\$80,453	\$649,476	\$3,321,232	\$0	\$21,388	\$8,284	\$3,350,904	\$2,374,854	\$976,050														
Bristol Warren	17,013,771	866,462	(758,509)	17,112,121	171,217	321,240	8,189	17,622,370	18,415,047	(792,677)														
Burrillville	11,986,292	598,764	28,887	12,627,679	-	7,376	446	12,635,501	12,588,772	46,729														
Central Falls	39,161,821	1,969,619	(1,425,560)	39,705,880	-	33,320	5,488	39,744,688	41,145,437	(1,400,749)														
Charho	273,805	71,077	(38,320)	306,562	3,066	585,924	2,898	898,450	527,701	370,749														
Charlestown	1,604,513	66,473	4,694	1,677,912	16,757	-	-	1,694,669	1,704,448	(9,779)														
Coventry	17,721,361	829,477	684,974	325,701	19,561,513	13,948	11,613	19,587,074	18,550,838	1,036,236														
Cranston	32,511,574	1,530,264	3,321,570	1,579,386	38,942,794	213,424	32,650	39,188,868	34,148,058	5,040,810														
Cumberland	12,101,575	542,840	774,052	13,786,524	-	42,182	6,054	13,834,760	12,663,079	1,171,681														
East Greenwich	1,442,706	60,142	291,625	1,386,666	1,933,139	10,574	11,523	1,955,236	1,507,198	448,038														
East Providence	23,612,207	1,124,364	1,049,185	498,881	26,284,637	6,485	66,183	26,357,305	24,739,609	1,617,696														
Exeter-West Greenwich	5,998,981	307,172	(187,302)	6,118,851	61,189	300,630	15,278	6,495,948	6,722,730	(226,782)														
Foster	1,181,984	59,261	(32,094)	1,209,151	-	3,650	1,526	1,214,327	1,242,314	(27,987)														
Foster-Glocester	4,917,950	239,219	(65,619)	5,091,550	50,916	145,273	1,284	5,289,023	5,372,978	(83,955)														
Glocester	2,725,127	135,039	(74,444)	2,785,722	4,060	2,903	2,792,685	2,862,833	(70,148)															
Hopkinton	5,374,182	239,607	(53,420)	5,560,369	55,604	-	-	5,615,973	5,726,195	(110,222)														
Jamestown	351,708	17,559	(11,130)	358,137	-	-	-	363,461	369,267	(5,806)														
Johnston	9,497,585	440,076	582,328	276,893	10,796,882	151,339	15,277	10,963,498	10,011,917	951,581														
Lincoln	6,575,317	288,938	771,780	366,977	8,003,012	-	18,317	8,021,329	6,864,555	1,156,774														
Little Compton	300,714	13,144	16,813	7,995	338,666	-	-	338,666	313,858	24,808														
Middletown	8,489,558	438,250	(125,716)	8,802,092	-	-	6,149	8,808,241	8,927,808	(119,567)														
Narragansett	1,423,886	64,722	117,149	55,704	1,661,461	-	1,799	1,663,260	1,488,608	174,652														
New Shoreham	59,350	2,501	5,275	2,508	69,634	-	2,658	72,292	61,851	10,441														
Newport	9,725,734	495,479	51,931	24,693	10,297,837	-	3,225	10,301,062	10,221,213	79,849														
North Kingstown	10,188,035	486,804	54,539	25,933	10,755,311	-	2,893	10,758,204	10,674,839	83,365														
North Providence	11,905,857	554,729	898,077	427,030	13,785,693	-	81,931	13,899,108	12,496,556	1,402,552														
North Smithfield	4,301,801	198,918	335,830	159,685	4,996,234	-	16,948	5,013,984	4,510,725	503,259														
Pawtucket	60,867,489	2,878,291	2,467,433	1,173,249	67,386,462	-	5,179	67,391,641	63,745,780	3,645,861														
Providence	4,798,899	273,250	(278,012)	4,794,137	-	-	1,695	4,795,832	5,072,149	(276,317)														
Providence	174,391,396	8,683,552	8,141,855	3,871,402	195,088,205	124,034	116,140	195,328,379	183,074,948	12,253,431														
Richmond	5,298,508	239,469	(117,625)	5,420,352	54,204	-	-	5,474,556	5,648,866	(174,310)														
Scituate	3,017,177	133,191	236,979	112,682	3,500,029	-	12,999	3,514,828	3,155,942	358,886														
Smithfield	4,494,817	223,988	(4,941)	4,713,864	-	15,772	13,119	4,742,755	4,726,920	15,835														
South Kingstown	8,020,479	420,852	(342,211)	8,099,120	-	31,984	5,871	8,136,975	8,457,470	(320,495)														
Tiverton	5,088,117	241,531	231,961	110,296	5,671,905	-	5,904	5,677,809	5,329,648	348,161														
Warwick	31,902,908	1,533,605	414,242	196,970	34,047,725	-	41,736	34,089,461	33,436,578	652,883														
West Warwick	18,267,435	864,504	411,470	195,651	19,739,060	-	13,296	19,775,027	19,143,703	631,324														
Westerly	5,721,059	261,313	391,712	186,257	6,560,341	-	11,821	6,572,162	5,982,372	589,790														
Woonsocket	42,808,255	2,034,796	1,157,025	550,159	46,550,235	-	8,528	46,579,955	44,847,524	1,732,431														
Subtotal District Aid	\$607,406,414	\$29,509,695	\$19,575,959	\$10,979,565	\$667,471,633	\$412,953	\$500,000	\$670,560,266	\$638,855,187	\$31,705,079														
Charter School Total	41,995,116	1,209,467	3,857,781	20,435	47,082,799	-	-	47,082,799	43,200,585	3,878,214														
Davies	13,416,256	673,955	(708,672)	-	13,381,539	-	-	13,381,539	14,090,211	(708,672)														
Met School	11,642,563	593,721	(588,028)	-	11,648,256	-	-	11,648,256	12,236,284	(588,028)														
Total	\$674,460,349	\$31,986,838	\$22,137,042	11,000,000	\$739,584,227	\$412,953	\$500,000	\$742,672,860	\$708,386,268	\$34,286,593														

¹ Does not include Career and Technical and Early Childhood funding, which will be distributed through competitive grants.

² Excludes Group Home and School Housing aid.

Source: Rhode Island Department of Education

Categorical Funds

When the Education Adequacy Act (Act) was passed in 2010, it created five categorical programs that are outside the formula. They include Transportation, Regionalization Bonus, Early Childhood (Pre-K Demonstration Project), High-Cost Special Education, and Career and Technical Education.

The Budget provides \$7.5 million in funding for all of these categories.

Category	FY2012	FY2013	Difference
Transportation	\$1.1	\$2.2	\$1.1
Regionalization Bonus	0.9	0.4	(0.4)
Early Childhood	-	1.5	1.5
High-Cost Special Education	-	0.5	0.5
Career and Technical Education	-	3.0	3.0
Total	\$1.9	\$7.5	\$5.6

\$ in millions.

Transportation: The Act provides funding for transporting students to out-of-district, non-public schools for districts that participate in the statewide transportation system and for 50.0 percent of the local costs

associated with transporting students within regional school districts. The program provides for a pro-rata reduction in reimbursements to districts based on available funding. The Budget includes \$2.2 million in FY2013, an increase of \$1.1 million over FY2012.

Regionalization Bonus: The Act includes a bonus to regional districts and for those that regionalize in the future. In the first year, the bonus is 2.0 percent of the State’s share of the total foundation aid. In the second year, the bonus is 1.0 percent of the State’s share, and in the third year, the bonus phases out. The program provides for a pro-rata reduction in reimbursements to districts based on available funding. The Budget provides \$412,951, a decrease of \$438,290 from FY2012.

Early Childhood: The Act includes funding for early childhood education programs. The funds will be distributed through a request for proposals process targeting communities in three tiers, with the first tier having the highest concentration of children at risk for poor educational outcomes. The Budget provides \$1.5 million in FY2013. This represents the first year of funding for the early childhood education fund, which would be fully funded by the end of the formula transition.

High-Cost Special Education: The Act includes a program for high-cost special education students. The program requires the state to reimburse the costs when they exceed five times the per-pupil combined Core Instruction and Student Success Factor funding (currently equivalent to \$60,755). While the distribution method for this category has not been defined, the program provides for a pro-rata reduction in reimbursements to districts based on available funding. The Budget provides \$500,000 in FY2013. This represents the first year of funding for the high-cost special education fund, which will be fully funded by the end of the formula transition.

Career and Technical Education: The Act provides a state grant program to help districts with certain start-up and maintenance expenditures for career and technical education programs. The program provides for a pro-rata reduction in reimbursements to districts based on available funding. The distribution method for this category has not been defined. The Budget provides \$3.0 million in FY2013. This represents the first year of funding for the career and technical fund, which will be fully funded by the end of the formula transition.

Charter School Aid

Prior to FY2012, charter school funding was based on the per-pupil expenditure of the sending district. The State paid 5.0 percent of the per-pupil expenditure as indirect aid to the sending district, and a portion of the remaining 95.0 percent based on the share ratio of the sending district. The charter school billed the sending district, on a quarterly basis, for the portion of the per-pupil expenditure not paid by the State.

Under the new formula implemented in FY2012, the funding mechanism for charter schools will change significantly. The State’s share of charter school funding will be based on the same formula used for school districts, and the funds calculated pursuant to the foundation formula will be paid directly to the charter school. Consequently, the State will pay the same amount for a student whether the student is in the district school or a charter school.

The local share of funding to charter schools will be the local per-pupil cost, calculated by dividing the local appropriation to education from property taxes, net debt service and capital projects, by the district RADM. The change in local tuition is scheduled to phase in over five years. Local payments will be made to the charter school on a quarterly basis. Failure to make a payment could result in the withholding of state education aid to the district of residence.

FY2013 Education Aid to Charter Schools	
School	Aid
Beacon	\$1,694,107
Blackstone	1,588,944
Compass	585,087
Greene School	898,333
Highlander	2,733,717
International	2,876,846
Kingston Hill	689,636
Learning Community	6,095,627
New England Laborers	1,610,314
Nurses Institute	1,621,866
Paul Cuffee School	7,588,913
RIMA Blackstone Valley	6,076,368
Seque Institute	2,572,083
Academy Career Exploration (Textron)	2,323,013
Times ² Academy	7,054,405
Trinity Academy	1,073,542
Total	\$47,082,799

The FY2013 Budget includes \$47.1 million for public charter schools, an increase of \$3.9 million for Year 2 of the education funding formula change and \$20,435 for the funding formula acceleration. The \$3.9 million increase is due to the \$4.2 million in growth partially offset by reductions in aid to charter schools based on the Year 2 of the funding formula. Generally, the older charter schools will receive less state aid under the formula than through the previous distribution.

The following charter schools experienced growth:

- The Greene School, located in West Greenwich with a current enrollment of 126 students, is adding an eleventh grade (42 students).
- The Learning Community, located in Central Falls with a current enrollment of 536 students, is adding an additional kindergarten class (18 students).
- The Nurses Institute, located in Providence with a current enrollment of 136 students, is adding a twelfth grade (68 students).
- The Paul Cuffee School, located in Providence with a current enrollment of 634 students, is adding an eleventh grade (72 students).
- Blackstone Valley Prep Mayoral Academy, located in Cumberland with a current enrollment of 516 students, is adding a first grade, a third grade, and a seventh grade (252 students).
- Trinity Academy for the Performing Arts, located in Providence with a current enrollment of 68 students, is adding a ninth grade (34 students).

William M. Davies, Jr. Career and Technical High School and the Metropolitan Regional Career and Technical Center (Met)

Prior to FY2012, the State paid the total tuition costs of students attending the Davies and Met Schools, while the local districts provided transportation. Beginning in FY2012, the state payment to these state schools is determined pursuant to the funding formula by the same method used to calculate school district and charter school payments. However, the formula requires local districts to pay tuition, but allows the district to charge for transportation costs. The local tuition costs are calculated by dividing the local appropriation to education from property taxes, net debt service and capital projects, by the district RADM (the same as the charter school tuition). Local payments are made to the state school on a

quarterly basis. Failure to make a payment could result in the withholding of state education aid to the district of residence.

Discontinued Aid Programs

Upon implementation of the Education Adequacy Act, the following aid categories were discontinued:

General Aid: This category provided aid to support general operations. It was created in 1998 to ease the transition into the Rhode Island Student Investment Initiative (also known as Article 31) by folding previous aid categories into one category.

Central Falls: In 1991, it was determined that the City of Central Falls could not afford to meet its contractual, legal and regulatory obligations related to school funding because its tax base had sustained little or no growth over several years. The State assumed 100.0 percent funding of the district. The current formula funds Central Falls like all the other districts; however, the legislation provides for the Central Falls Stabilization Fund. This fund allows for additional aid to the City contingent upon a local contribution. This category was not funded in FY2013.

Literacy Set Set-Aside: Funds were restricted to literacy programs in the districts. The aid was 3.0 percent of the district's aid in three categories including General Aid, Student Equity, and Early Childhood. Funding for this program had been frozen since FY2006.

Student Equity Investment Fund: This fund targeted students identified as those requiring additional educational services to improve performance in mathematics, reading, and writing. Funds were distributed based on each district's proportion of children eligible for USDA reimbursable school meals relative to the total number of such students statewide. Funding for this program had been frozen since FY2006, and had not been updated to reflect changes in eligibility.

Student Technology Investment Fund: This fund was designed to help students meet the demands of the 21st century by providing schools and teaching staff with up-to-date educational technology and training. These funds were distributed based on each district's proportion of their average daily membership. Funding for this program had been frozen since FY2000, and had not been updated to reflect changes in enrollment.

Early Childhood Investment Fund: This category was to provide schools and teaching staff with resources to begin improving student performance and to provide early care and pre-kindergarten programs. Funds were distributed based on each district's proportion of their average daily membership for grades kindergarten through and including third grade. Funding for this program had been frozen since FY2003, and had not been updated to reflect changes in enrollment.

Student Language Assistance Investment Fund: These funds were used to assist students who require additional language education services. Funds were distributed based on each district's proportion of full time equivalent, limited English proficiency students statewide. Funding for this program had been frozen since FY2004, and had not been updated to reflect changes in enrollment.

Professional Development Investment Fund: These funds were used to continue developing the skills of Rhode Island's teachers and staff. Funds were distributed based on a pupil-teacher ratio that was adjusted annually. Funding for this category was discontinued in FY2009.

Targeted School Aid: These funds were distributed to each district with a tax effort below 1.0 as calculated pursuant to RIGL 16-7.1-6 and with a free and reduced lunch count in grades K-3 greater than 40.0 percent. Districts received aid based on their proportional average daily membership relative to the average daily membership of all districts eligible for aid under this section. Funding for Targeted School Aid had been frozen since FY2004.

Full-Day Kindergarten Investment Fund: This category provided funding on a per-pupil basis for districts with full-day kindergarten programs. The distribution was based on the community tax effort as follows: a tax effort of below 0.6 received \$1,500 per pupil; a tax effort of below 1.0 received \$1,000 per pupil; and, all others received \$500 per pupil. Funding had been frozen since FY2007 at the FY2006 level, and had not been updated to reflect changes in enrollment.

Vocational Technical Equity Fund: This category provided \$500 per student for those attending a locally operated career and technical center based on enrollments reported for the previous academic year. Funding had been frozen since FY2006, and had not been updated to reflect changes in enrollment

GROUP HOME AID (RIGL 16-64-1.1)

Prior to FY2002, communities that had group homes were required to provide educational services to children placed in those homes. The community that was “hosting” the group home would then bill the communities where the parents of each child resided for these educational services. Often the communities who received the bill challenged whether the parents of the child in the group home resided in their town. Due to the transience of many of the families in question, residency could be extremely difficult to prove; consequently, this “bill back” system drove up legal expenses for the towns and left many of the bills unpaid.

In FY2002, the General Assembly enacted legislation to create this aid category in an attempt to correct a longstanding problem relating to communities being reimbursed for educational services they provide to children placed into group homes by the Department of Children, Youth, and Families (DCYF). The change created a per-bed allotment to districts in which the group home beds are located. This legislation provided that the host community would receive aid on a per pupil rate intended to reflect the average cost per pupil based on the blend of regular education and special education costs. While it was understood that a blended average rate would not necessary reimburse a community for the precise cost of educating each student, the task force felt that the savings from eliminating the old bill back system would offset any difference.

Fiscal Year	Total Funding	% Change
2000	\$25.5	13.2%
2001	30.8	20.5%
2002	33.2	7.9%
2003	38.2	15.1%
2004	40.7	6.6%
2005	43.9	7.6%
2006	47.2	7.6%
2007	46.8	-0.8%
2008	49.7	6.1%
2009	54.1	9.0%
2010	58.3	7.8%
2011	68.0	16.6%
2012	69.8	2.6%
2013	74.6	6.9%

\$ in millions.

The 2007 General Assembly enacted legislation, RIGL 16-64-1.1, to ensure that the payment of group home aid more closely reflects the actual number of group home beds each community has at the time of the budget. The legislation mandates that increases in beds prior to December 31st of each budget year shall be paid as part of the supplemental budget for that year and is included in the budget year recommendation. Decreases in beds will not result in a decrease in aid for the current year but will be adjusted in the subsequent year. The Assembly also increased the per bed amount from \$15,000 to \$22,000 for the group home beds associated with Bradley Hospital’s Children’s Residential and Family Treatment (CRAFT) Program, which provides hospital-based residence for children who struggle with psychiatric, emotional and/or behavioral problems. The FY2013 Budget includes \$8.2 million to fund group home beds. This is \$420,000 less than the FY2012 Budget as Enacted, and represents a decrease of 6.0 beds in Burrillville, 8.0 beds in Newport, 1.0 bed in North Providence, 7.0 beds in Portsmouth, and 6.0 beds in Providence.

SCHOOL HOUSING AID (RIGL 16-7-35 THROUGH 16-7-47 AND 16-77.1-5)

In 1960, the school housing aid program was enacted by the General Assembly to guarantee adequate school facilities for all public school children in the state, and to prevent the cost of constructing and repairing facilities from interfering with the effective operation of the schools. Applications for aid to support the construction and renovation of school buildings are submitted to and evaluated by the Rhode

Island Department of Elementary and Secondary Education (RIDE). State aid is provided for approved projects based on a percentage of cost. The percentage provided by the State to the school district is determined based on a share ratio designed to measure a community's need. For FY2013, the minimum state share is 35.0 percent and the maximum is 93.3 percent.

The General Assembly is obligated by statute to annually appropriate the necessary sum for school housing aid payments to districts. In the FY2013 Budget, the General Assembly appropriated \$74.6 million in school housing aid, a 6.9 percent increase from the previous year's supplemental appropriation; local districts are estimated to match this expenditure with \$58.0 million in local funds. To control the growth in the program, the 2011 General Assembly enacted a moratorium on new projects, limiting approvals in FY2012 through FY2015 to projects that are necessitated by immediate health and safety reasons. This amendment also revoked approval for projects that were approved by the Board of Regents prior to the adoption of the new school construction regulations in 2007 that are currently inactive or have not received voter approval.

In FY1997, RIGL 16-7-40 and 16-7-44 were amended to increase School Housing Aid by increasing the school housing aid ratio for regional school districts undertaking renovation projects, and expanding the definition of the type of renovations and the funding mechanisms that qualify for aid. The definition was expanded to include lease revenue bonds, capital leases, and capital reserve funds. Prior to this, only projects supported by general obligation bonds were reimbursable under this program. This amendment resulted in rapid growth of the program.

In 1999, RIGL 16-77.1-5 was enacted to provide that public charter schools sponsored by a district may access the school housing aid program. Public charter schools sponsored by a district may receive the reimbursement rate of the district; public charter schools not sponsored by a district may apply for a 30.0 percent reimbursement of school housing costs.

In FY2004 the program was amended further (RIGL 16-7-40):

- To provide a bonus for cities and towns to renovate career and technical centers when ownership is transferred from the State to the host municipality. For such communities the school housing aid share ratio would be increased by 4.0 percent for the renovation and/or repair of these buildings.
- To provide that the State would not reimburse communities for debt service costs on bonds not approved by the voters or issued by a municipal building authority prior to June 30, 2003, unless the bonds for these projects are issued through the Rhode Island Health and Educational Building Corporation.
- To clarify that the only funding mechanisms allowed under the school housing aid program were bonds, capital leases and capital reserve funds.

As mandated by the General Assembly, RIDE developed and implemented new school construction regulations in 2007 and developed annually-updated cost standards. Three new FTE positions were added to supervise the Housing Aid program. Since adoption of the regulations and cost standards, the total value of annually-approved projects has been reduced by 60.0 percent.

In FY2008, the General Assembly passed legislation requiring that all bonds, notes and other forms of indebtedness, other than interim finance mechanisms, issued in support of school housing projects shall require passage of an enabling act by the General Assembly.

In FY2009, the General Assembly enacted a provision for when an audit or subsequent review by the Commissioner of Elementary and Secondary Education determines that a district was overpaid school housing aid. The community must repay the amount over a repayment period that is designed to keep the amount repaid in any given year at 0.5 percent of revenues, or less. If the entire repayment is not received in the first year, interest is applied annually at a rate equal to the consumer price index. This

provision was applied to a \$9.5 million overpayment to the City of Providence. Under the formula, the repayment in the current case would occur over seven years. Thus, the General Assembly decreased Education Aid to the City of Providence in FY2009 by \$1.3 million. This decrease in General Revenue aid will occur annually until FY2015.

The 2010 General Assembly passed legislation increasing the minimum share ratio from 30.0 percent in FY2011 to 35.0 percent in FY2012 and to 40.0 percent in FY2013. Due to this increase in the share ratio, several communities delayed completion of projects in order to qualify for a higher reimbursement. For FY2013 the Governor recommended freezing the ratio at 35.0 percent for FY2013 and thereafter. The General Assembly concurred but provided that projects completed after June 30, 2010, that received approval from the Board of Regents by June 30, 2012, receive the 40.0 percent minimum.

EDUCATION JOBS FUND TRANSFER (FEDERAL FUNDS)

The FY2013 Budget includes an increase of \$32.3 million in general revenue to replace federal Education Jobs Funds used to reduce general revenue funding for the education funding in FY2012 and permits the LEA's to keep the supplemental federal Education Jobs Funds grant.

On August 10, 2010, Congress created the Education Jobs Fund, a new \$10.0 billion program designed to save or create education-related jobs during the FY2011 school year. Rhode Island was awarded \$32.9 million on September 9, 2010. The grant allows RIDE to keep 2.0 percent of the grant (\$658,586) to cover administrative costs. On September 14, 2010, a letter was sent to the school districts by the Commissioner of Elementary and Secondary Education announcing the award of the federal Education Jobs funds to the State. The Commissioner cautioned districts that the additional funds could be used to supplant state resources.

In November 2011, the State received notice that the federal government was awarding Rhode Island an additional \$486,517 under the same Education Jobs Fund. As with the original award, 98.0 percent of the funds will be distributed to the Local Education Agencies (LEAs) with 2.0 percent (\$9,730) remaining in the Department of Education for administrative costs. The LEAs must spend the money by September 30, 2012.

Local Education Agency	Group Home Aid		Other Aid	Housing Aid		Federal Suppl.
	FY2013	Change from FY2012 Enacted	FY2012 Revised	FY2013	Change from Revised	Jobs Fund ¹
Barrington	\$0	\$0	\$494,814	\$467,121	(\$27,693)	\$1,189
Bristol Warren	210,000	-	2,596,293	2,483,435	(112,858)	12,802
Burrillville	330,000	(90,000)	1,345,436	1,316,864	(28,572)	8,846
Central Falls	-	-	1,570,426	1,752,908	182,482	29,100
Charlino	-	-	1,597,063	1,511,764	(85,299)	1,050
Charlestown	-	-	-	-	-	982
Coventry	120,000	-	1,381,328	1,265,880	(115,448)	12,255
Cranston	-	-	2,503,052	2,322,792	(180,260)	22,609
Cumberland	-	-	1,918,706	1,963,606	44,900	8,020
East Greenwich	-	-	318,487	2,153,083	1,834,596	889
East Providence	636,000	-	785,051	1,348,611	563,560	16,612
Exeter-West Greenwich	210,000	-	541,923	703,626	161,703	4,538
Foster	-	-	5,768	-	(5,768)	876
Foster-Glocester	-	-	3,179,807	3,302,049	122,242	3,534
Glocester	-	-	98,950	196,804	97,854	1,995
Hopkinton	-	-	-	-	-	3,540
Jamestown	-	-	143,114	136,800	(6,314)	259
Johnston	120,000	-	469,256	451,885	(17,371)	6,502
Lincoln	135,000	-	1,168,344	1,297,573	129,229	4,269
Little Compton	-	-	56,692	19,839	(36,853)	194
Middletown	480,000	-	218,652	378,419	159,767	6,475
Narragansett	-	-	655,832	615,271	(40,561)	956
New Shoreham	-	-	218,822	217,951	(871)	37
Newport	360,000	(120,000)	639,908	621,006	(18,902)	7,321
North Kingstown	-	-	1,103,811	942,730	(161,081)	7,192
North Providence	240,000	(15,000)	1,313,686	1,792,650	478,964	8,196
North Smithfield	120,000	-	1,102,986	1,109,652	6,666	2,939
Pawtucket	855,000	-	2,158,707	2,067,568	(91,139)	42,526
Portsmouth	585,000	(105,000)	452,752	441,038	(11,714)	4,037
Providence	2,640,000	(90,000)	28,633,882	29,026,848	392,966	128,298
Richmond	-	-	-	-	-	3,538
Scituate	-	-	296,393	279,109	(17,284)	1,968
Smithfield	240,000	-	319,778	509,667	189,889	3,309
South Kingstown	375,000	-	907,030	856,351	(50,679)	6,218
Tiverton	-	-	891,074	872,105	(18,970)	3,569
Warwick	360,000	-	1,162,397	1,148,412	(13,985)	22,658
West Warwick	-	-	992,272	984,336	(7,936)	12,773
Westerly	-	-	1,413,316	2,786,081	1,372,765	3,861
Woonsocket	165,000	-	5,746,227	5,883,051	136,824	30,063
Subtotal District Aid	\$8,181,000	(\$420,000)	\$68,402,035	\$73,226,884	\$4,824,849	\$435,995
Charter School Total	\$0	\$0	\$1,373,975	\$1,342,022	(\$31,953)	\$17,869
Davies	-	-	-	-	-	9,957
Met School	-	-	-	-	-	8,772
Total	\$8,181,000	(\$420,000)	\$69,776,010	\$74,568,906	\$4,792,896	\$472,593

¹ Federal Jobs Bill allocation for district-sponsored charter schools were included in the sponsoring district's allocation.

Source: Rhode Island Department of Education

TEACHER RETIREMENT (RIGL 16-16-22)

The State is responsible for funding a percentage of the employer’s contribution to the Teacher’s Retirement System, with the school districts contributing the balance. The employer’s share is determined annually. The State’s share has varied over the years; however, since 1993, the State has been required to make a contribution to teacher retirement equal to 40.0 percent of the employer’s contribution. The school districts contribute 60.0 percent of the employer’s contribution. In FY1991 and FY1992 the General Assembly deferred the State’s contribution and most school districts followed suit. The State deferrals, valued at \$22.4 million in FY1991 and \$22.2 million in FY1992, were financed over 20 years. The annual calculation applied to the State contribution to teacher retirement includes an adjustment for the liability of the deferral. Five communities did not defer their share of the employer contribution: Burrillville, East Greenwich, Little Compton, New Shoreham, and North Smithfield. Consequently, these districts contribute a smaller percentage of teachers’ salaries.

Teacher Retirement		
Fiscal Year	Total Funding	% Change
2003	\$38.1	23.8%
2004	46.2	21.4%
2005	52.6	13.8%
2006	58.6	11.5%
2007	67.3	14.7%
2008	80.2	19.3%
2009	76.3	-4.9%
2010	72.3	-5.2%
2011	69.7	-3.7%
2012	84.1	20.8%
2013	79.8	-5.2%

\$ in millions.

SCHOOL BREAKFAST PROGRAM (RIGL 16-8-10.1)

The School Breakfast Program was established in 1966 as a two-year pilot project designed to provide categorical grants to assist schools serving breakfasts to "nutritionally needy" children. Studies conclude that students who eat school breakfast increase their math and reading scores as well as improve their speed and memory in cognitive tests. The Rhode Island Department of Elementary and Secondary Education is responsible for administering the School Breakfast Program. The largest share of the School Breakfast Program (\$7.7 million in FY2013) is funded by the federal government. However, the State provides additional funding which is paid to school districts on a per breakfast served basis, to cover administrative costs, including the cost of hiring servers needed to effectively run the program and encourage participation.

The FY2008 Budget as Enacted provided \$600,000 as the state share for administrative cost reimbursement to districts for the School Breakfast Program. The Governor’s FY2009 budget proposal eliminated this funding. The General Assembly did not concur with the Governor’s proposal and restored \$300,000 for this program. For FY2010 and FY2011, the General Assembly appropriated \$300,000 for this program.

The FY2012 Budget provided \$270,000 for the State’s share of administrative costs for the School Breakfast Program, a decrease of \$30,000, or 10.0 percent, compared to the FY2011 Enacted Budget. The FY2013 Budget level funds this program at \$270,000 in general revenue.

Textbook Loan Program

Fiscal Year	Total Funding	% Change
2003	\$0.2	-50.0%
2004	0.3	50.0%
2005	0.3	0.0%
2006	0.2	-33.3%
2007	0.3	50.0%
2008	0.3	0.0%
2009	0.3	0.0%
2010	0.2	-33.3%
2011	0.2	-3.3%
2012	0.3	10.0%
2013	0.2	-9.7%

\$ in millions

TEXTBOOK LOAN PROGRAM – RIGL 16-23-2 AND 16-23-3.1

Prior to FY2001, school committees furnished textbooks in the fields of mathematics, science, and modern foreign languages that appeared on the list of textbooks published by the Commissioner of Elementary and Secondary Education to resident students in grades K-12 attending non-public schools. This list was comprised of all the textbooks used in the three topic areas in each school district across the State. In FY2001, the General Assembly expanded the program to include English/language arts and history/social studies textbooks as those that must be available for loan to students in grades K-8. Since this expenditure is

incurred at the local level, expanding the program without supporting appropriations would have presented an unfunded mandate to local communities: although communities already provided books for all subjects to public school students, the additional cost relates to loaning books to non-public school pupils. To avoid imposing an unfunded mandate on the communities, the General Assembly created a reimbursement program for the cost of providing English/language arts and history/social studies textbooks to students in grades K-8. In FY2004, this program was expanded to include students in grades 9 through 12. The FY2013 Budget includes \$240,000 in general revenue for the Textbook Reimbursement Program, a decrease of \$25,695 from the FY2012 actual expenditure.

Support for Struggling Schools

The programs available to provide support to Rhode Island's struggling schools include Progressive Support and Intervention (PS&I), School Improvement Grants, and Race to the Top (RTTT). Of the programs available, only Progressive Support and Intervention is funded with general revenues. The remaining programs are funded through federal grants. The table below provides the funding history for these programs.

Program	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013	Total
	Spent	Spent	Spent	Spent	Enacted	Enacted	
Progressive Support and Intervention (general revenue)	\$2.8	\$2.4	\$2.8	\$2.7	\$0.0	\$0.2	\$10.9
School Improvement Grants (federal - annual)	-	-	-	0.8	1.8	1.1	3.7
School Improvement Grants (federal - ARRA)	-	-	0.0	1.3	5.3	4.0	10.6
RTTT - Struggling School Intervention (federal)	-	-	-	1.2	1.5	1.3	3.9
Total	\$2.8	\$2.4	\$2.9	\$6.0	\$8.6	\$6.6	\$29.1

\$ in millions.

PROGRESSIVE SUPPORT AND INTERVENTION (RIGL 16-7.1-5)

The Progressive Support and Intervention (PS&I) program applies strategies consistent with the Comprehensive Education Strategy and the principles of the "School Accountability for Learning and Teaching" (SALT) for those schools and school districts that are found to be "in need of improvement", as defined by the federal No Child Left Behind Act, for two consecutive years. The Rhode Island Department of Elementary and Secondary Education (RIDE) exercises progressive levels of control over the school and/or district budget, program, and/or personnel.

Initially, support focuses on technical support and oversight. If the school continues to miss annual targets for four consecutive years, however, the State takes a more active role, and the school is placed in "corrective action" status. The State then works with the district to develop and implement a "corrective action plan." If schools miss their annual targets for more than four consecutive years, the school is subject to "restructuring," which can involve direct intervention by the State.

The funding history for this program includes the following:

FY2008: The General Assembly appropriated \$2.8 million for this program, a decrease of \$100,000 from FY2007. Prior to FY2008, \$100,000 in funding to support the Rhode Island Consortium for Instructional Leadership and Training was included in this budget line. The General Assembly instead chose to include this funding as a community service grant.

Fiscal Year	Total Funding	% Change
2008	\$2.8	2.3%
2009	2.4	-14.3%
2010	2.8	16.7%
2011	2.7	-3.6%
2012	0.2	-92.6%
2013	0.2	0.0%

\$ in millions.

FY2009: The General Assembly enacted \$2.7 million in funding for PS&I. This amount was reduced through the supplemental budget to \$2.4 million when RIDE proposed eliminating personnel funding through the program as a cost-saving measure. The personnel costs have been absorbed into other programs within the Department.

FY2010: The General Assembly appropriated \$3.2 million for this program, and included \$700,000 for a preschool pilot program to increase school readiness and \$100,000 for extended learning time in the urban districts. Final expenditures were \$2.8 million due to the transfer of the preschool pilot program to the Education Aid program and the use of savings from other budget areas to increase grant funds for local districts and accelerate the development work for the transformation process.

FY2011: The General Assembly appropriated \$2.7 million for this program, accounting for the transfer of the preschool program and eliminating \$100,000 for extended learning time.

FY2012: The Enacted Budget eliminated \$2.7 million in general revenue funding from the Progressive Support and Intervention Program to ensure funding for the first year of the new education formula.

The FY2012 Supplemental budget redirected \$183,624 in other funds from the permanent school fund for the Central Falls School District (CFSD) to the Progressive Support and Intervention (PS&I) program to support persistently low achieving districts. The Department proposed that, since the district's funding is determined via the funding formula, allocations outside the formula are not necessary. Furthermore, the district is expected to lose a significant number of students and the fiscal impact of the enrollment decline will be transitioned pursuant to the formula. Shifting the funds to PS&I allows access to the funds to support other districts such as Providence, Pawtucket, Woonsocket, and West Warwick.

FY2013: The program is level funded at \$183,624 from the permanent school fund.

SCHOOL IMPROVEMENT GRANTS

Title I, Section 1003(g) of the Elementary and Secondary Education Act (ESEA) authorizes formula grants to State Educational Agencies (SEAs) to assist schools identified for improvement, corrective action, and restructuring. Rhode Island was awarded \$14.3 million (\$3.7 million in annual grants and \$10.6 million in ARRA grants) to improve persistently lowest achieving schools through the federal School Improvement Grants (SIG) program. Of the total, 5.0 percent (\$716,344) is set aside for administrative costs within the Rhode Island Department of Education (RIDE). The amount of money available for states is driven by a formula set by the United States Department of Education and not by the number of schools identified across the state. Beginning in FY2013, SIG funding will not be available for newly identified schools and no additional federal funding has been identified for transformation and reformatory efforts.

Annual Grants

For Rhode Island, the average amount received annually is approximately \$1.2 million, for an implementation period of 3 years, which must be shared among multiple schools. Under current federal law, these funds will be discontinued in FY2014.

American Recovery and Reinvestment Act (ARRA)

The American Recovery and Reinvestment Act (ARRA) provided funding to avoid reductions in public higher and elementary and secondary education. Rhode Island received approximately \$134.9 million over a three-year period (FY2009 – FY2011) to be used for higher and lower education. As part of the total grant, Rhode Island was awarded \$10.6 million to improve its persistently lowest achieving schools through the School Improvement Grants (SIG) program. As of June 1, 2012, \$3.4 million has been paid out, \$3.1 million has been obligated to Providence and Central Falls but not paid, and \$3.6 million has not been awarded. The remaining \$502,935 represents the 5.0 percent set-aside for administrative costs within RIDE. RIDE reports that remaining ARRA funded programs being administered by RIDE with an obligation end date of September 30, 2012, are currently obligated.

In order for a school district to apply for annual or ARRA school improvement grant funds, it must have a state-identified "persistently lowest achieving" school. These schools generally fall into two categories, Tier I and Tier II:

Tier I: A school that is among the lowest achieving 5.0 percent of Title I schools in improvement, corrective action, or restructuring with a multi-year history of low performance or is a high school with a graduation rate less than 60.0 percent over three years.

Tier II: A school among the lowest achieving 5.0 percent of such schools in the state that are eligible for, but do not receive, Title I funds or is a high school with a graduation rate less than 60.0 percent over a number of years that is eligible for, but does not receive, Title I funds.

Once schools have been identified by the State as Persistently Lowest Achieving (PLA), the district qualifies to apply for grant funding. When a school district applies for these funds, it must indicate which of the following four reform models will be implemented in each persistently lowest achieving school:

Turnaround Model: Replace the principal, screen existing school staff, and rehire no more than half the teachers; adopt a new governance structure; and improve the school through curriculum reform, professional development, extended learning time, and other strategies.

Restart Model: Convert a school or close it and re-open it as a charter school or under an education management organization.

School Closure: Close the school and send the students to higher-achieving schools in the district.

Transformation Model: Replace the principal and improve the school through comprehensive curriculum reform, professional development, extended learning time, and other strategies.

Once an intervention model has been selected by the district and approved by the State Education Agency (SEA), the district and schools can collaboratively apply for competitive funding offered through the School Improvement Grant (SIG) program to support improvement efforts. In allocating funds to districts, SEAs must give priority to the districts with the lowest-achieving schools that demonstrate the greatest need for such funds and the strongest commitment to substantially increase the achievement of students in their lowest-performing schools.

RIDE has identified two cohorts of persistently-lowest achieving schools (PLAs). Cohort 1 was identified in the 2010-2011 school year and is currently engaged in their second year of reform model implementation. Cohort 2 was identified in October 2011 and is about to begin pre-implementation activities associated with their RIDE-approved reform models. The schools that have received or been awarded SIG funding to support their reform efforts are listed in the table below:

Persistently Low Achieving Schools

District	School	Federal Funds Awarded			Reform Model	Cohort
		ARRA Funds	Annual Grants	Total		
Central Falls	Central Falls Senior High School	\$2.5	\$0.0	\$2.5	Transformation	Cohort 1
Pawtucket	Shea Senior High School	-	0.3	0.3	Transformation	Cohort 2
	William E. Tolman Senior High School	-	0.3	0.3	Transformation	Cohort 2
Providence	BJ Clanton Complex	1.1	0.3	1.3	Transformation	Cohort 1
	Juanita Sanchez Complex	0.7	0.1	0.8	Transformation	Cohort 1
	Lillian Feinstein Elementary School	1.0	0.2	1.2	Transformation	Cohort 1
	Roger Williams Middle School	1.2	0.2	1.4	Transformation	Cohort 1
	Carl G. Lauro Elementary School	-	0.1	0.1	Restart	Cohort 2
	Dr. Jorge Alvarez High School	-	0.1	0.1	Restart	Cohort 2
	Gilbert Stuart Middle School	-	0.1	0.1	Restart	Cohort 2
	Mount Pleasant High School	-	0.3	0.3	Transformation	Cohort 2
	Pleasant View School*	-	0.4	0.4	Transformation	Cohort 2
Total		\$6.5	\$2.5	\$8.9		

Source: Rhode Island Department of Education.

\$ in millions.

Funding for the federal SIG program is provided through annual federal grant funding and through ARRA; however, only Cohort 1 schools are supported with ARRA funds, while both cohorts are supported with annual federal SIG funds. Due to the delay in the distribution of funds from the United States Department of Education, Rhode Island was awarded a waiver to assure a three-year implementation period; consequently, the State has until September 30, 2014, to spend the ARRA funds.

Tier II Schools	
School	District
R.Y.S.E School	Chariho
Central High School	Providence
Esek Hopkins Middle School	
Providence Career and Technical School	
Rhode Island School for the Deaf	State

The PLAs identified in Cohorts 1 and 2 represent only Tier I schools. There is an additional layer of

persistently-lowest achieving schools that are Tier II schools that are not receiving federal SIG funding to support reform efforts. A Tier II school is not required to select a reform model, but if it does, it may compete for annual SIG funding. Tier II schools that do not choose a reform model are encouraged by RIDE to consider changes, especially in the areas of deficiency. Tier II schools identified in the fall of 2011 will not be supported by SIG resources due to insufficient federal funding to support all the reform initiatives. The Tier II schools are listed in the table to the right.

RACE TO THE TOP - STRUGGLING SCHOOLS INTERVENTION

Of the \$75.0 million in federal Race to the Top funds awarded to Rhode Island in August 2010, \$3.9 million is allocated to the Struggling School Intervention program area to provide intensive support to schools identified as persistently low-achieving. This support includes a school achievement specialist, evaluation support, and a summer institute. RIDE will work with the LEAs so that each school receives the support of a school achievement specialist during the planning year and the first two years of the intervention program.

RTTT funds will provide an FTE position to support the implementation of an educator evaluation system in the years leading up to and including the first year of intervention. Each school will undergo a needs assessment of its performance against established criteria and will receive specific recommendations for improvement. The school leadership team and the turnaround principal will participate in a two-week summer training program offered through the Academy for Transformative Leadership in partnership with nationally-recognized experts. Additional professional development modules and virtual modules will provide ongoing training throughout the school year. A coach will provide mentoring and counseling for the turnaround principal weekly in the first year and monthly in the second year.

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Commission on Disabilities
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