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LEGISLATIVE PROGRAM REVIEW
& INVESTIGATIONS COMMITTEE

Connecticut's Public School Finance System

FEBRUARY 2002

DIGEST

CONNECTICUT'S PUBLIC SCHOOL FINANCE SYSTEM

Overview

Findings

- *Total funding for education increased steadily since the early 1980s.*
- *Even though the state increased its support for education, its share of education expenses declined since 1990.*
- *Local governments still provide the majority of funding for education.*
- *As a percent of the total state budget, state funding for education was fairly flat in the mid-1990s, but has increased recently.*
- *While the vast majority of money the state allocates for education is distributed through the unrestricted ECS grant, more emphasis has been placed on specifically earmarked grants and school construction over the last several years.*
- *The wealthiest towns in Connecticut have the highest per pupil expenditures and the property-poor towns, while not the lowest, still lag about 20 percent behind the richest towns.*
- *The teacher retirement contribution made by the state on behalf of municipalities is one of the last significant disequalizing grants*
- *In 1999, Connecticut was one of the top states when it comes to revenue raised per pupil for education. However, if education revenues are considered in relation to personal income, Connecticut raises less education revenue than 38 other states.*
- *Compared to other states, Connecticut is one of the most reliant on local government revenue to fund education.*
- *Overall school revenues declined as a share of personal income since 1992 from $46.08 to $43.84 per thousand.*

Equal educational opportunity measures

Expenditure Measures

Findings

- *All statistical measures indicate disparity in educational expenditures declined over the last 26 years and that the state has made significant progress in this area since 1974.*
  - *The 95:5 ratio dropped from 87 percent in 1974 to 29 percent in 2000.*
  - *The McLoone index improved from .881 in 1974 to .931 in 2000*

- *The coefficient of variation declined since 1974 from .18 to .12 in 2000.*

- *However, the spending measures show little variability in the late 1990s, perhaps indicating the funding system as currently configured and supported has reached its maximum level of equity.*

Other Resource Equity Measures

Findings

- *Spending patterns of the top and bottom ERGs, which represent the wealthiest and poorest districts in the state, are similar; both generally spend above the state average across major cost categories.*

- *Indicators of staff and equipment resources (i.e., ratios of staff to student, student to compute, and class size) are also fairly close for the top and bottom ERGs but disparities in input measures related to facility condition and student characteristics (i.e., preschool experience, and participation in advanced courses) are large.*

- *The gap between the top and bottom ERGs on all outcome measures is substantial. ERG I is below the state average for each indicator of student performance as well as for the portion of graduates pursing higher education; its drop out rate is well above that for any other group.*

Recommendation

The state board of education shall, in a format developed in consultation with the legislature's education committee, submit to the governor and the General Assembly each year by January 1, an analysis of key performance measures of resource equity and equal education opportunity. The measures should include but not be limited to generally accepted school finance equity statistics, specifically the 95:5 ratio, the McLoone Index, and the coefficient of variation, and indicators of instructional program quality such as student-to-staff ratio, class size and instructional hours, teacher quality, adequacy of equipment and facilities, and student achievement, such as standardized test results and post-graduation pursuits.

In addition, a fiscal impact statement shall be prepared for any bill related to the education cost sharing grant and shall include at a minimum an analysis of the impact of the bill's provisions on three school finance equity statistics, the 95:5 ratio, McLoone Index and coefficient of variation, calculated using the most recently available fiscal year data.

State funding and tax effort

State Funding and Per Pupil Spending

Findings

- *Since the Horton decision (1973), the state increased its share of funding for education and the overwhelming majority of state funding for education takes into account each town's ability to pay, but the goal of equal state-local funding has not been met.*
- *The difference in average per pupil operating expenditures between the wealthiest towns and the poorest towns has been reduced.*
- *Property-poor towns (tenth decile) receive the most state aid – an average of $5,519 per pupil or 62 percent of the average total spent in FY 2000.*
- *The statistical relationship between property wealth and the amount of per pupil operating expenses has been reduced since the mid-1990s.*
- *Still, the average total per pupil spending is about 20 percent greater in the wealthiest towns compared to the poorest.*

Education Mill Rates and Local Share for Education

Findings

- *The difference in the mill rate for the local share of education expenses between the property-rich towns and the property-poor towns, while still significant (42 percent), has decreased.*
- *The equalized education mill rate among the towns does not meet the principle of a uniform mill rate – that is similarly situated taxpayers paying the same mill rate for education.*
- *When adjusted for income, mill rates indicate wealthier towns' (top 10 percent) tax burden is less for the local share of education expenditures.*

Local Share For Education and Income

Findings

- *Generally, the wealthier the town the greater the proportion of median household income dedicated to local share of education expenses.*
- *Except for the two wealthiest deciles, the wealthier the town the greater the proportion of total town income dedicated to local share of education.*

Educational Cost Sharing Grant Program

Foundation

Findings

- *Using the cost of 80th percentile need student to establish the foundation as set forth in the original ECS statute would require a foundation level of $7,349, an increase of $1,458 over the current level of $5,891.*
- *Adjusting the original foundation level for inflation would require a present day foundation of $6,871, and increase of $980.*
- *Per pupil spending by every town in the state exceeds the current foundation level.*
- *The gap between the current foundation level and the statewide median net current expenditures per pupil for 2000 was $1,451.*
- *The spread between real net current expenditures per pupil and the current foundation has been growing at annual rate of slightly more than 3 percent a year over the last four years.*

Recommendation

An educational cost commission to set and systematically update the foundation level shall be established.

The commission's initial foundation level shall be reported to the governor and General Assembly on January 1, 2003, and every four years thereafter.

The governor and General Assembly shall in all actions relevant to state financing of local education follow the foundation level set by the commission.

The commission shall consist of nine members including: the commissioner of education; two representatives of local boards of education appointed by the governor; two representatives of superintendents of local school districts, one appointed by the speaker of the house and one by the minority leader of the senate; two representatives of local school district teachers, one appointed by the senate president pro tempore and one appointed by the minority leader of the house of representatives; and two representatives of municipal governments, one appointed by the senate president pro tempore and one appointed by the minority leader of the house of representatives.

The foundation shall reflect the minimum amount of money necessary to provide an adequate education for an average student.

In developing the foundation the commission shall contract with the Connecticut Center for Economic Analysis at the University of Connecticut or a similar entity to provide technical support and services.

Need Students

Findings

- *The weights increased the statewide resident student count for October 2000 by about 6.6 percent.*
- *On a town-by-town basis, weighting for need increased the student count from less than 1 percent (Simsbury) to nearly 23 percent (Hartford).*
- *Fifty-seven percent of the weighted students are in the state's 17 poorest towns (The state's five largest cities contain 48 percent of the state's total weighted students).*
- *Changing the weights has a large impact on formula aid (Doubling all the weights increased formula aid in 2002 by $189 million, while eliminating the weights reduces formula aid by $188 million).*
- *There is no statistical evidence supporting the size of the current weights for poverty, performance, or English proficiency used in the ECS formula.*

Recommendation

The educational cost commission established to set and systematically update the foundation level should also set and systematically update the weights assigned to students exhibiting characteristics of poverty, remedial-level performance on standardized proficiency tests, limited English proficiency, and any other characteristics specifically designed by state statute.

The weights should reflect the amount of money necessary to provide an adequate education for the average student in the classification being weighted.

In developing the weights the commission shall contract with the Connecticut Center for Economic Analysis at the University of Connecticut or a similar entity to provide technical support and services.

The commission's initial weights shall be reported to the governor and General Assembly on January 1, 2003, and every four years thereafter.

The governor and General Assembly shall in all actions relevant to state financing of local education follow the weights set by the commission.

Measuring Town Wealth (Base Aid Ratio)

Findings

- *How town wealth is measured is a policy choice having a significant impact on the amount of state educational aid a town receives.*
- *Current policy directs nearly 60 percent of ECS base aid to the 34 poorest towns (bottom 20 percent) and slightly more than 2 percent to the 33 wealthiest towns (top 20 percent).*
- *The five alternative methods of measuring town wealth examined by committee staff caused between 125 and 159 towns to experience a change in base aid.*
- *Of the five alternative methods of measuring town wealth examined by committee staff, only median household income increased the amount of base aid called for under the ECS formula. (MHI resulted in an increase of $41 million, while the decrease called for by the other four ranged was from -$165 to -$43 million.)*
- *All five alternative methods of measuring town wealth examined by committee staff except per capita income caused a shift of base aid share away from the 34 poorest towns (bottom 20 percent) toward the 33 wealthiest towns (top 20 percent).*
- *In most instances, whether a change in how wealth is measured would cause a town's base aid to increase or decrease defied a systematic explanation.*

Recommendation

The current method of measuring town wealth should be continued.

Supplemental Aid

Findings

- *Supplemental aid adds only $6 million to the ECS formula aid total (about 0.4 percent).*
- *On a town-by-town basis, supplemental aid ranges from a low of $20 to a high of $1.5 million with the median value is $1,220.*
- *Ninety-three percent of the supplemental aid is distributed to 10 percent of the towns.*
- *The five largest cities accounted for 72 percent of all supplemental aid.*
- *The number of students added to a town's residential student count based on the weighted need criteria is the variable most highly correlated with supplemental aid (.98).*

Recommendation

The supplemental aid component of the ECS formula shall be terminated at the end of FY 03 in conjunction with the adoption of a set of weights for counting students with special needs recommended by the education cost committee.

Regional Bonus

Findings

- *The regional bonus adds just over $2 million to ECS formula aid, the amount provided to towns before the cap and other special adjustments are applied.*
- *Forty-seven towns were entitled to a regional bonus in amounts ranging from almost $1,700 to more than $318,000 for FY 02.*
- *The exact contribution of a regional bonus to a town's final ECS grant is difficult to determine, given the effect of special minimum and maximum aid provisions on final payments.*

Recommendation

The regional bonus component of the ECS grant program should be terminated at the end of FY 03 and funding to address specific needs of consolidated school districts should thereafter be part of a categorical grant program.

Grant Cap

Findings

- *Between FY 96 and FY 01 the money withheld from towns based on the imposition of the cap ranged from about $67 million to almost $152 million per year.*
- *Between FY 96 and FY 01, only 21 towns were not affected by the cap, many were capped for multiple years, and 35 were capped every year.*
- *In FY 02, 60 percent (101) of all towns were subject to the cap.*
- *Taking into account a $25 million grant cap supplement made available to capped towns in FY 02, the ECS cap is estimated to save the state just over $90 million for FY 02.*
- *The estimated cap supplement received by the 101 capped towns for FY 02 ranges from $2,719 to $1,692,139. In about a dozen cases, a town's cap supplement is greater than the ECS grant payment it is entitled to under the capped formula.*

Recommendation

The ECS cap should be terminated as scheduled at the close of the fiscal year ending June 30, 2003.

Stoploss / Hold Harmless / Minimum Increase

Findings

- *The minimum base aid ratio of 6 percent affects 44 towns and costs the state an estimated $28 million.*
- *Aside from the base aid ratio and before the FY 02 minimum increase is applied, hold harmless provisions assisted 58 towns in obtaining additional funding. This amounted to nearly $32 million, ranging from a low of $494 to $3.8 million per town.*
- *The percentage difference between what a town was entitled to and what it received due to the hold harmless provisions (other than the base aid ratio), ranged from less than 1 percent to over 200 percent. Twenty-eight towns received a percentage difference that was in the double digits or more*
- *Sixty-four towns benefited from the 1.68 percent minimum increase, receiving in the aggregate nearly $6 million more than last year. The total amount of this increase for each town ranges from approximately $2,200 to $420,000. All 64 towns received more than the ECS formula called for.*
- *At present, 14 towns have priority district status and another 13 have transitional school status. None of the priority districts and only one transitional district benefited from the special 70 percent/40 percent minimum aid provision for FY 02. This amounted to about a $580,000 increase.*
- *The alternative minimum increase based on prior year per student funding applied in the cases of two priority districts, increasing their ECS aid in total by nearly $39,000.*

Recommendation

All but the minimum base aid ratio hold harmless provisions shall be terminated by the end of FY 02, except for the fiscal year ending June 30, 2003, no town shall receive less than its total ECS grant for the fiscal year ending June 30, 2002. For purposes of calculating the ECS grant, fiscal year ending June 30, 2003, shall be considered the base year.

Density Supplement

- *The density supplement adds on about $5.5 million to the formula aid, which represents approximately 0.4 percent of total ECS funding.*
- *In FY 02, 46 towns are entitled to receive a density supplement and the amounts ranged from approximately $8,000 to just over $1 million.*

- *Twelve towns account for over 70 percent of the density supplement aid distributed.*

Recommendation

The density supplement component of the ECS grant program should be terminated at the end of FY 03 and any funding to address specific needs of urbanized school districts should thereafter be part of a categorical grant program.

Distribution of Entitlement Aid

Findings

- *Frequent changes in the foundation and state guaranteed wealth level aimed at saving state funds has begun to undermine the state's credibility when it comes to funding local education.*
- *Imposing caps on the amount of state educational aid a town can receive distorts the outcomes of the ECS formula and implies it is flawed.*
- *Imposing a floor (hold harmless) on the amount of state educational aid a town can receive distorts the outcomes of the ECS formula and implies it is flawed.*

Recommendation

For the fiscal year ending June 30, 2004 and each fiscal year thereafter, if the state does not fully fund the ECS grant program, each town shall receive the same percentage of the funds budgeted for the ECS grant program [*in excess of the amount budgeted for the fiscal year ending June 30, 2003*] **as the town's percentage share of the total base aid calculated under the provisions of CGS Section 10-262h (6), except in no instance shall a town receive less ECS grant aid than the amount of its ECS grant for the fiscal year ending June 30, 2003 in any succeeding year.**

ECS Grant Calculation

Recommendation

The state education department shall make an interactive ECS grant calculation spreadsheet available on its website beginning January 1, 2003.

Supplanting of local funding

Findings

- *In FY 99, ten towns reduced their local share. State ECS aid increased in six of the towns. In the other four towns, state ECS aid was reduced but the local share reduction was greater than the ECS aid reduction. The amount of the reductions ranged from $20,000 to over $1.1 million.*
- *In FY 00, 11 towns reduced their local share as state ECS aid increased in each town. The amount of the reductions ranged from $28,000 to over $2.5 million.*
- *The no-supplant provision redefines ECS as solely an education grant and eliminates any local tax relief component from the state's equalization aid program.*
- *The current statutory language is unclear and, in certain circumstances, may be unreasonable.*

Recommendation

Clarify the intent of the no-supplant provision and make the spending restrictions more reasonable, C.G.S. Section 10-262i(c) should be amended to incorporate the following provisions:

definitions of the terms "supplant" and "local funding for educational purposes" and the funding time period;

a method for calculating changes in local share of a town's education spending based on cumulative totals over a three-year period;

specific authority for the state education department to monitor compliance with the no supplanting requirements;

a specific penalty for noncompliance, such as permitting the state education department to reduce state aid in the succeeding year by an amount equal to the reduction made in local share;

allow a municipality to request approval from the commissioner of education to reduce its local share of education spending, with approval only being granted if the town demonstrates reductions are related to significant cost efficiencies or reductions in student needs, receipt of state aid to compensate for prior under funding, or other circumstances the commissioner deems reasonable; and

require the commissioner to annually report to the legislature all instances of reductions in local education funding including approved requests, indicating the amount of and reasons for the reduction of local share.

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DIGEST OF FINDINGS AND RECOMMENDATIONS

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Introduction

Connecticut's Public School Finance System

Local control of public schools is well established in Connecticut although state government has a constitutional responsibility to provide children substantially equal educational opportunity. In 1977, the Connecticut Supreme Court held the state's system for funding elementary and secondary education, which relied primarily on revenues from local property taxes, was unconstitutional (*Horton v Meskill*). The court found the system failed to take into account wide differences in town wealth and lacked any significant equalizing state support.

The General Assembly subsequently enacted a series of school finance reforms intended to offset disparities in the ability of municipalities to provide students with equal educational opportunities. Over the last two decades, the state's share of public school expenditures has increased substantially, with the bulk of state aid directed to communities with less wealth and greater student need.

The Legislative Program Review and Investigations Committee initiated a study of Connecticut's system for funding public elementary and secondary education in light of state legal obligations and policies related to equity in April 2001. The study focused on two main questions:

1) how well is the system meeting the state's goal of equal educational opportunity, particularly in terms of reducing variance in spending among school districts; and

2) how fairly does the system treat local taxpayers across districts?

The committee examined the relationship between equity goals and each type of state funding for local schools including: the Education Cost Sharing (ECS) grant, the formula-based equalization aid program that provides the bulk of state money for local school operating costs; over two dozen categorical grants that target aid for specific education purposes such as pupil transportation, special education, school readiness and other defined activities; the school construction grant program; and payments to the teacher retirement system. Key measures used in the Horton case to assess student and taxpayer equity were applied to the present state education finance structure to determine the current status of funding disparities.

According to education finance experts, an effective school funding system incorporates the following elements:

- equity -- educational resources and the tax burden to support them are distributed fairly;
- adequacy -- resources are provided at the level needed to meet goals and standards;
- accountability -- funding is linked to outcomes; and
- stability -- revenues and expenditures are predictable over time.

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Some would add, from a practical standpoint, that a successful funding structure is also understandable – the system's underlying concepts and procedures are clear to all concerned parties -- and politically acceptable – provisions avoid major disruptions in existing levels of spending and services.

Using these elements as a framework, the program review committee found the state's system of equalization aid and categorical grant funding has reduced disparities in spending among districts. Whether student and taxpayer equity has been achieved is more difficult to assess, as equity is a value-laden concept. The committee found the ECS grant is not performing as well as it could in distributing aid based on student need and local wealth and made several recommendations to correct distortions.

In terms of adequacy, Connecticut was found to be a high total spender on education compared with other states, even taking into account our high cost of living. However, like equity, what is adequate is not easy to answer. It is clear from the committee's review that continuous action by the legislature to control state spending in times of budget crisis by freezing key components of the ECS formula and instituting caps on annual increases has jeopardized the grant's effectiveness in supporting the costs of basic educational services. The committee proposes a new, simpler way to control ECS expenditures in response to statewide spending problems and priorities. Expert review of the formula's foundation spending level and weighting for student need is also recommended.

Accountability in Connecticut's funding system is achieved through several statutory measures, most importantly a minimum spending requirement within the ECS grant and restrictions on supplanting of local education expenditures. The program review committee found modifications of the supplanting statute are need to make it work as intended.

The state's education finance system has provided relatively stable funding levels over time. Revenues are raised from a mix of sources – state income and sales taxes, state bond funds for construction costs, and the local property tax. The legislature has also employed various hold harmless provisions within the ECS grant and specialized short-lived categorical grants to protect local districts from budget disruptions. These provisions, however, have contributed to one of the great weakness of the current state financing structure -- its complexity. The program review committee believes much dissatisfaction with the current ECS formula is due to the difficulty in understanding its many components. Several recommendations are aimed at simplifying the ECS formula.

Finally, one of the great strengths of the current system is its general political acceptability. While many at the state and local level are not entirely satisfied with the ECS formula or the state's wide array of targeted education aid, the system promotes local control and directs state aid, for the most part, to the types of student everyone agrees have the greatest needs. The overall aim of the committee recommendations is to make the existing structure, which incorporates the essential elements required for an effective school finance system, work better. The study's main findings, along with the actions proposed by the committee to address them, are summarized by topic in the table presented below.

Methods

A variety of resources and methods were used to gather and analyze information for this report. The basis for most committee staff analysis of education funding trends and patterns was the extensive computerized databases on grant payments to towns, districts, and other education entities (e.g., charter schools, regional education service centers), school district characteristics, state and local education expenditures, and federal funding maintained by the State Department of Education. Outcome measures and indicators related to resource equity and equal educational opportunity developed and monitored by the department were also examined.

Additional information on local revenues and expenditures, tax base composition, and income and property wealth factors by town were compiled from census data. Connecticut data were compared, when appropriate, with relevant national school finance statistics and information available from other states.

Current statutes and legislative histories related to all state funding programs for local and regional school districts, as well as materials from the school finance court cases and state education department policies and plans, were reviewed. Committee staff also reviewed the education finance literature, current research on school funding issues, and publications from a number of national education organizations. Major studies of the state's school finance system carried out over the past three decades, including documents prepared by the Education Equity Study Committee, the ECS Task Force, and the Connecticut Education Association were examined.

Key staff from the state education department and representatives of the main school finance interest groups in the state were interviewed during the study process. The committee held public hearings in October and November 2001 in three locations (Hartford, Norwich, and Weston) to obtain views on the education funding system from interested parties throughout the state. On December 6, 2001, the committee also sponsored an afternoon workshop for legislators on key school finance issues with the help of the Center on Education Finance of the National Conference of State Legislatures.

Report Organization

The committee's report is organized into seven chapters. The first provides an overview of Connecticut's education funding system as well as an analysis of funding trends and patterns over time. Chapter II summarizes state legal obligations and goals related to education finance and assesses the current status of equal educational opportunity measures considered by the court in the Horton lawsuit. The third chapter contains a full analysis of the ECS formula while the fourth and fifth chapters describe, respectively, state categorical grant funding and the school construction grant program. Information related to state education funding and tax effort is presented in the sixth chapter. Accountability measures, specifically the ECS minimum expenditure requirement and statutory ban on supplanting of local education funding, are discussed in the Chapter Seven.

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SUMMARY OF COMMITTEE FINDINGS AND RECOMMENDATIONS BY TOPIC

TOPIC	PROPOSED ACTION
Equal Educational Opportunity Measures	
• *Progress made in reducing disparities in resources (per pupil spending and other inputs); major gaps persist in outcome measures* • *Measuring equity requires multiple indicators, judgment of policymakers*	• Require annual report to legislature containing key performance indicators of resource equity and equal educational opportunity • Require equalization impact analysis for all bills related to ECS
State Funding and Tax Effort	
• *State share of education funding up but not at 50-50 partnership goal (state 41% in 2001)* • *Per pupil spending less related to town wealth but wealthiest towns still 20% above poorest on average* • *Differences in tax effort (measured by equalized education mill rate) reduced but rates still not equal; tax burden less for wealthier towns*	• No change in tax effort recommended
Educational Cost Sharing Grant Program	
Foundation Level • *Frozen at unrealistic level; gap between actual and intended threatens formula credibility (currently $5,891 vs. $7,349)*	• Create educational cost commission to update foundation to better reflect minimum level required to provide adequate education by 1/01/03
Need Students Weights • *Current weights proxies for higher costs associated with greater needs; not based on statistical evidence*	• Create educational cost commission to update adjustments for student need to better reflect actual costs of providing added services 1/01/03
Wealth Measure • *Court decision requires state aid offset disparities in local ability to pay for education* • *Town wealth measure in current formula directs 60% of ECS base aid to poorest 20% of towns* • *Alternatives measures of wealth tend to shift aid away from poorest and benefit wealthiest towns*	• Continue current wealth measurement method
Supplemental Aid • *Component adds funding for needier students; redundant if student weighting accurate* • *Complicates formula and has relatively small financial impact; only $6 million in FY 02 and most (72%) goes to just 5 cities*	• Eliminate as ECS supplement by 6/30/03 subject to implementation of cost commission updated need student weights

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TOPIC	PROPOSED ACTION
Regional Bonus • *Component targets additional aid to towns in regional districts* • *Bonus amount ($100 per pupil) unrelated to needs specific to regional districts* • *Distorts formula and has small fiscal impact; in FY 02, only $2 million distributed to just 47 towns*	• Eliminate as ECS component by 6/30/03 and replace with categorical grant
Grant Cap • *Cap on annual increases significantly distorts distribution of ECS aid* • *In FY 02, 60% of towns subject to cap and underfunded by over $90 million; all but 21 towns capped at least one year since FY 96 & 35 capped every year*	• Proceed with cap elimination by 6/30/03; replace with new aid distribution method, see below
Hold Harmless Provisions • *Special adjustments intended to cushion towns from loss in aid distort equalizing effect* • *Provisions unrelated to need & jeopardize formula credibility* • *Minimum base aid ensures all towns receive some aid, reflecting state's ultimate responsibility for education for all children*	• Phase out all current hold harmless provisions except minimum base aid by 6/30/03; establish new hold harmless beginning FY 03 whereby no town receive less than ECS grant amount received for fiscal year ending June 30, 2002
Density Supplement • *Component targets more aid to densely populated towns; not directly related to education* • *Distorts formula and involves relatively small financial impact; about $5.5 million provided to just 46 towns in FY 02*	• Eliminate as ECS component by 6/30/03 and replace with categorical grant
Aid Distribution • *Special adjustments imposed to control state spending (e.g., cap, hold harmless, freeze on foundation) distort distribution of aid, undermine equaling impact* • *Continuous revisions weaken formula credibility*	• Beginning FY 04, require increase in ECS aid be distributed in proportion to town's share as calculated under the statutory formula provided minimum funding town can receive is FY 03 ECS grant amount • Make interactive ECS grant calculation spreadsheet available on education department website
Supplanting of Local Funding	
• *Law unclear & eliminates implied tax relief policy within original ECS program*	• Amend current provisions to clarify intent and establish an enforcement mechanism

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Chapter I

Overview

Connecticut's system of public elementary and secondary education is made up of 166 local and regional districts, more than 1,000 schools, and about 562,000 students enrolled in grades pre-kindergarten through 12. A considerable amount of money is spent on elementary and secondary education in Connecticut -- over $6.5 billion in FY 2001. The state supported over 40 percent of those costs, which represented over 20 percent of the state budget.

This section presents an overview of Connecticut's primary and secondary education finance system as well as funding trends and patterns in education over the last several years. A comparison of Connecticut's education spending to other states is also provided.

Based on the information and analysis provided below, the committee makes the following findings about the overall trends in education finance.

- *Total funding for education increased steadily since the early 1980s.*
- *Even though the state increased its support for education, its share of education expenses declined since 1990.*
- *Local governments still provide the majority of funding for education.*
- *As a percent of the total state budget, state funding for education was fairly flat in the mid-1990's, but has increased recently.*
- *While the vast majority of money the state allocates for education is distributed through the unrestricted ECS grant, more emphasis has been placed on specifically earmarked grants and school construction over the last several years.*
- *The wealthiest towns in Connecticut have the highest per pupil expenditures and the property-poor towns, while not the lowest, still lag about 20 percent behind the richest towns.*
- *The teacher retirement contribution made by the state on behalf of municipalities is one of the last significant disequalizing grants.*
- *In 1999, Connecticut was one of the top states when it comes to revenue raised per pupil for education. However, if education revenues are considered in relation to personal income, Connecticut raises less education revenue than 38 other states.*
- *Compared to other states, Connecticut is one of the most reliant on local government revenue to fund education.*
- *Overall school revenues declined as a share of personal income since 1992 from $46.08 to $43.84 per thousand.*

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Funding Trends and Patterns

Figure I-1 shows total funding for education in Connecticut from all sources, as well as funding just from state government. The figure indicates education spending increased significantly since 1981.

- Since 1981 total funding for education increased from $1.6 billion to $6.5 billion in 2001 – a 306 percent increase overall and a 71 percent increase since 1991.
- The largest increases in total spending (from 10 to 12 percent) occurred between 1986 through 1989.
- Total state funding over the 21-year time period increased from $525 million to $2.7 billion in 2001 – a 224 percent increase overall and an 80 percent increase since 1991.
- The largest increases in state funding (15 to 19 percent) occurred in 1987 through 1989. However, in 1991 and 1993 the state support declined by 7 and 2 percent respectively.

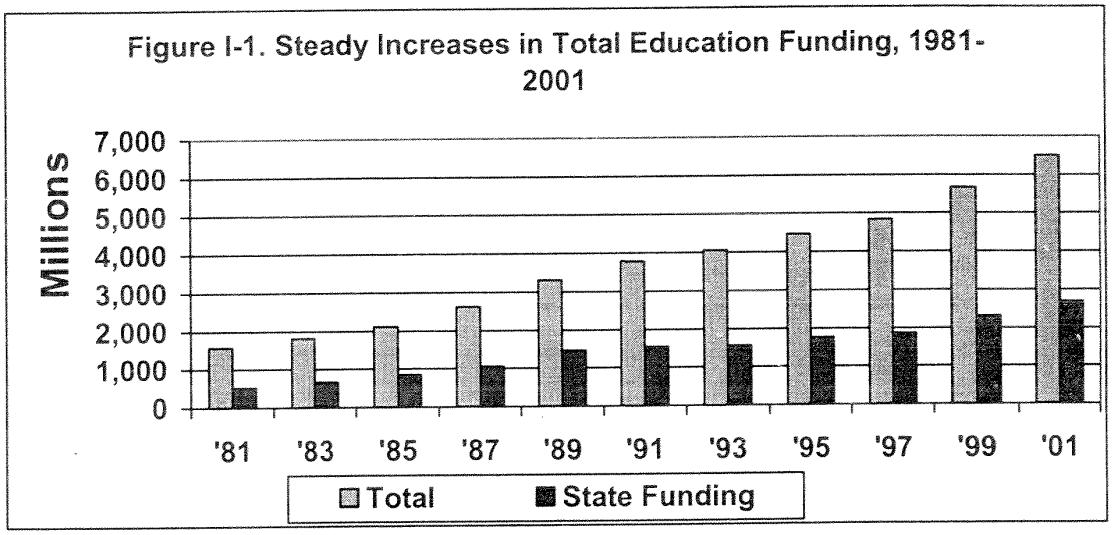

Figure I-2 presents education funding by source of revenue (local, state, and federal/other) on a percentage basis. The majority of funding for education has and continues to come from local government sources. Additionally, the figure shows the following statistics.

- Since 1980, the average share for state support of education has been 40.1 percent, local share 54.9 percent, while federal and other support was 5 percent.

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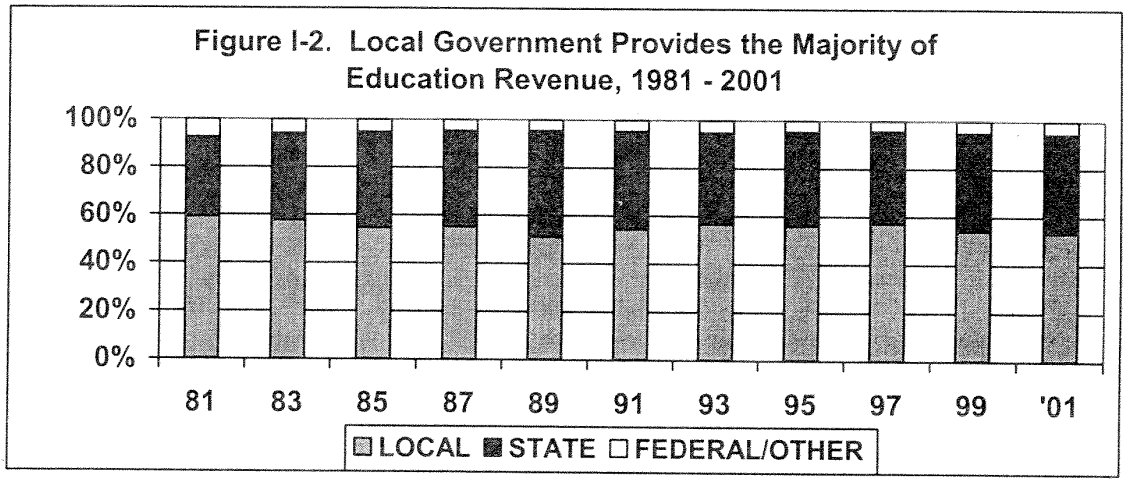
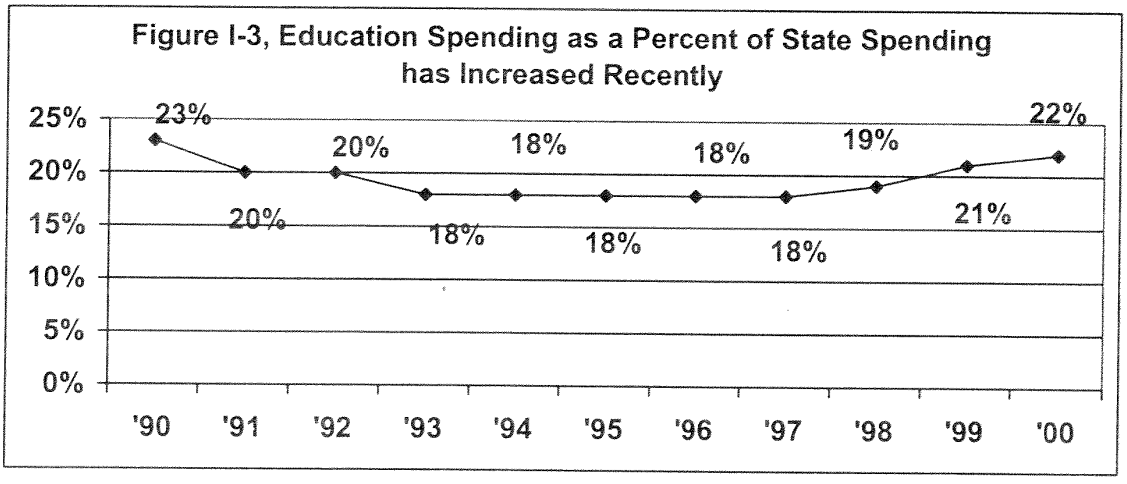
- From 1980 through 1990, the average state share was 39.9 percent and local share was 54.8 percent. From 1991 through 2001, the average state share was 40.2 percent, while the average local contribution was 54.9 percent.
- Over the last two decades, the lowest percentage of state share was 31.7 percent in 1980.
- The highest percentage of state share was 45.5 percent in 1990 and declined through the decade before rising again to 41.4 percent in 2001.



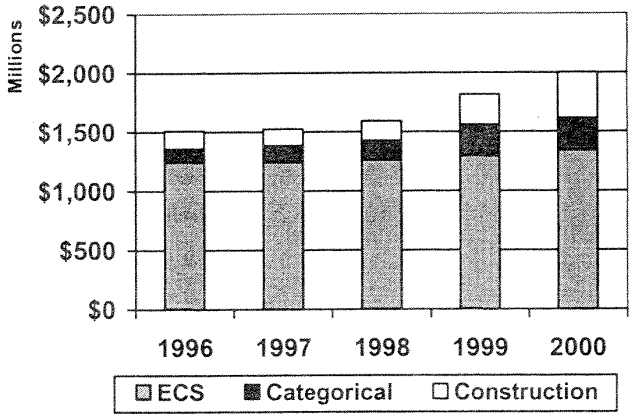
As presented in Figure I-3, education spending in 1990 represented 23 percent of state spending and declined to 18 percent in the middle 1990s before rising again to 22 percent in 2000.



The majority of state education revenues - $2.0 billion (76 percent) in 2000- are allocated for state grants and direct aid to towns, though the state also supports the teacher's retirement system, the vocational technical schools, children who are in the state's custody and care, and other statewide services and support.

Figure I-4 shows the amount of state funding directed to towns by the three major types of aid: Education Cost Sharing grant program, categorical grants, and school construction grants. Funding trends include the following observations.

Figure I-4. As State Aid Increases, More Emphasis is Placed on Earmarked Grants, 1996-2000



- The total amount of aid increased 33 percent -- from $1.5 billion in 1996 to just over $2.0 billion in 2000.
- ECS grant represents nearly 67 percent of the $2 billion distributed to towns.
- Categorical and construction grants increased 60 and 160 percent respectively over the five-year time period, while ECS increased by 8 percent.

- Categorical and construction grants increased as a share of state aid since 1996: categoricals from eight to 13 percent and construction from 10 to 19 percent.
- ECS grant as a share of state aid has declined from 82 percent to 67 percent.

The committee obtained total funding amounts for education for each town. The towns were divided into deciles based on equalized net grand list property wealth per student. Average total per pupil spending was calculated, excluding construction, for each wealth decile and is presented in Figure I-5.

- Average total per pupil spending is greatest at the top decile ($10,643), followed by the second decile ($9,336) and then the tenth decile ($8,889). The lowest are the sixth ($8,357), seventh ($8,213), and eighth deciles ($8,128).
- The difference between the *top* (first decile) and *lowest* (eighth decile) per pupil expenditure is $2,515 (31 percent lower), and the difference between the *first decile* and the *tenth decile* is $1,754 per pupil (20 percent lower).

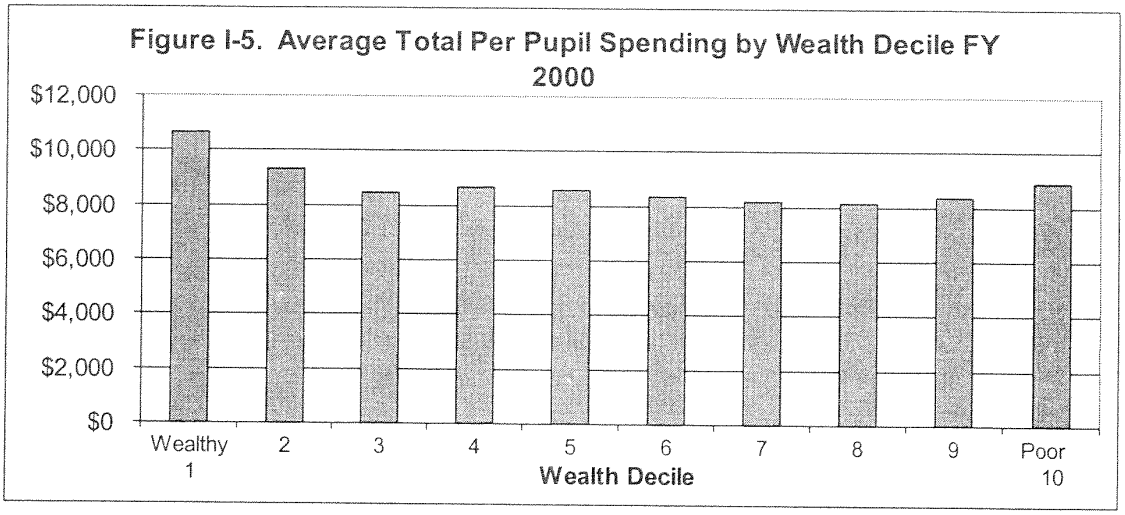


Table I-1 shows teacher retirement contributions made by the state for each Educational Reference Group (ERG). The state's ERGs are designated by the State Department of Education and are designed to enable comparisons of districts that have a similar socio-economic status. School districts are grouped into nine ERGs, A through I, with A including the 12 wealthiest communities in the state and I comprised of the seven poorest large cities. Because of data limitations in apportioning the share of each regional district to each region's municipality, a detailed town-level analysis was not possible within the timeframe of this report.

Table I-1. Teacher Retirement Contributions by the State by ERG, FY2001

ERG	*Amount Funded by State*	*Percent of Total Amount Funded*	*Percent of Total Pupils*	*Amount Funded per Pupil*
A	$16,077,807	7.4%	6.6%	$444.22
B	34,640,205	16.0%	15.2%	412.68
C	18,011,170	8.3%	8.7%	376.19
D	25,035,282	11.6%	13.3%	341.54
E	7,566,629	3.5%	3.4%	407.14
F	31,179,995	14.4%	14.0%	404.97
G	8,055,534	3.7%	4.4%	334.34
H	35,003,712	16.2%	16.1%	395.66
I	40,923,305	18.9%	18.4%	404.17

Source: State of Connecticut Teacher's Retirement Board and PRI calculations

The table also shows the percent of the total amount funded, percent of total pupils, and amount funded per pupil by ERG. Findings are summarized below.

- *While often overlooked in school finance discussions, the state's contribution to the teacher retirement fund is the third largest single appropriation made by the state on behalf of education, behind the ECS grant and the school*

construction grant. In FY 01, the state contributed approximately $216 million to the teacher's retirement fund on behalf of the state's 166 school districts.

- *The state contributed the most money (nearly 20 percent) on behalf of the municipalities in ERG I in total, which are comprised of the seven poorest cites.*
- *The state contributed more on a per pupil basis for the towns in ERGs A and B for teacher's retirement, which tend to be the wealthiest communities in the state.*
- *The teacher retirement contribution made by the state, is one of the last significant disequalizing grants.*

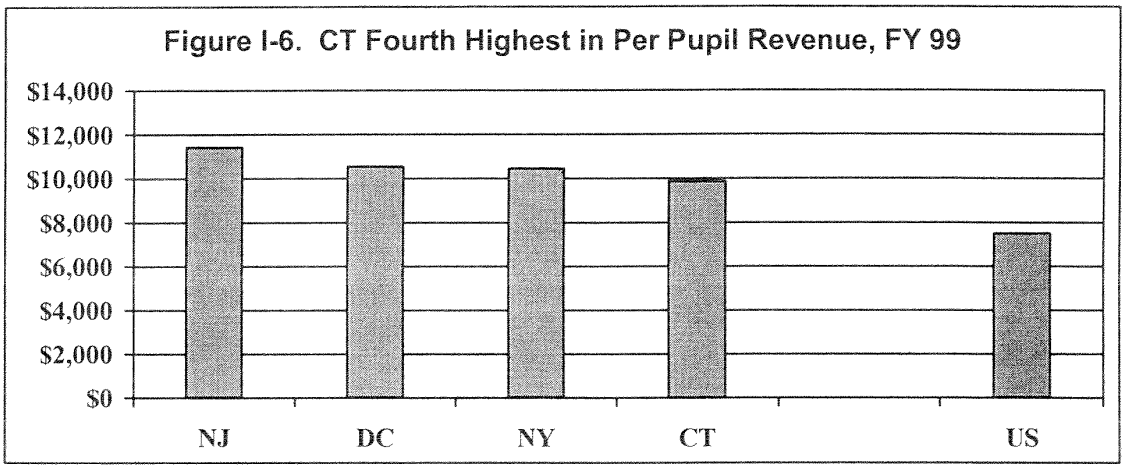


Figure I-6 presents a comparison of revenue raised per pupil among the top states and the District of Columbia in that category according to the latest figures compiled by the U.S. Census Bureau. In 1999, Connecticut was one of the top states when it comes to revenue raised per pupil for education. At $9,864, Connecticut ranks fourth in the nation for elementary-secondary education revenue. When compared to other states, it can be noted:

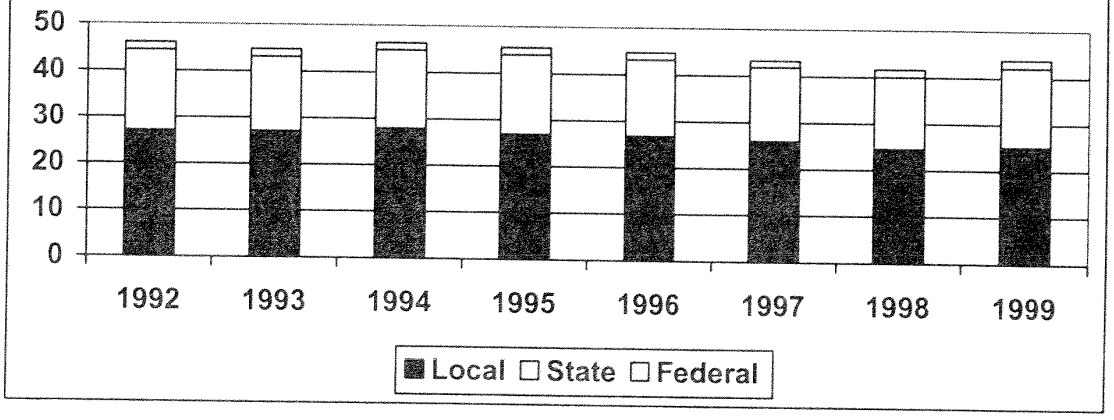
- Connecticut ranks as the fourth highest state in the amount of revenue derived from local sources for education on a per pupil basis;
- when the states are ranked in relationship to the amount spent on education per $1,000 of personal income, total education spending in Connecticut ranks 39th out of the 50 states and DC; and
- using the same per $1,000 personal income measure, Connecticut ranks 47th for revenue derived from state sources and 13th for revenue derived from local sources.

The result of measuring school revenue in relation to the state's total personal income is shown in Figure I-7.

- Overall school revenues have declined as a share of personal income since 1992 from $46.08 to $43.84 per thousand.

- The state's portion increased as a share of personal income since 1992 from $16.92 per thousand to $17.26, while local share declined over the same time period from $27.14 to $25.21.

Figure I-7. School Revenue by Source per $1,000 Personal Income, FY 1992-1999



Chapter II

Equal Educational Opportunity Obligations and Measures

The state's obligations and goals regarding public elementary and secondary education are outlined in the Connecticut constitution, the general statutes, and several key court decisions. Policies to guide implementation of these education mandates have been adopted by the state board of education. Major legal requirements and state board policies related to school finance matters are described in this chapter.

The central issue in the school finance lawsuit that led to Connecticut's current funding system was resource equity and equal educational opportunity. In the Horton v Meskill cases (1977 and 1985), the state supreme court found the state's reliance on the local property tax base to fund educational programs, without regard to disparities in town wealth, violated the constitutional mandate to provide "substantially equal educational opportunity" to all children. Further, education aid provided by the state did not offset the advantages of wealthy communities to spend at higher levels, which are associated with higher quality education, at lower tax rates than poorer towns.

The court based its findings of educational inequities on consideration of a number of measures of disparities both in distributing and raising revenues for education. The program review committee examined many of the same measures to determine the status of resource equity and equal educational opportunity under subsequent school finance reforms, particularly the Education Cost Sharing grant program. Committee findings concerning student resource equity measures and the goal of equal educational opportunity are presented in this chapter. Measures of tax effort considered by the court along with taxpayer equity issues are discussed in Chapter VI.

Constitutional Provisions

Education is only briefly addressed in the state constitution. Article eighth, section 1 establishes the principle of free public and elementary schools in the state and requires the General Assembly to implement it by appropriate legislation. This provision has been interpreted to establish a fundamental right to education. In addition, the Connecticut Supreme Court combined other provisions of the state's constitution, notably its guarantee of equal rights and equal opportunity, with the right to education that serve to further define the state's constitutional responsibility.

State Statutes

Details on public education standards, programs, and funding mechanisms are contained in Title 10 of the Connecticut General Statutes. Under the statutes, responsibility for providing and funding elementary and secondary education is delegated to the towns, through school districts. An oversight role is reserved for the state board of education and its administrative arm, the state education department. Local and regional boards of education must maintain good public schools and provide an appropriate learning environment for their students. Under the

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supervision and control of the state board, local and regional boards are required to implement the education interests of the state, which are defined in statute to include but not be limited to:

- each child having equal opportunity to receive a suitable program of educational experiences;
- each district financing at a reasonable level such an educational program;
- each district providing educational opportunities for students to interact with students and teachers from other racial, ethnic, and economic backgrounds to reduce isolation; and
- statutory mandates pertaining to education.

No state revenues are earmarked by law for public educational purposes at present. State funding for elementary and secondary is appropriated each budget cycle and provided to towns through a variety of statutory grant programs that support instructional costs, school construction, student transportation, and equalization of resources among districts. By law, towns can only levy a property tax to support education and all other expenses. School districts are fiscally dependent on towns and have no separate financial authority.

Case Law

The courts have provided direction to the General Assembly in implementing its constitutional mandate with regard to educational finance. Two major lawsuits have had a considerable impact on the way the state approaches education, though only one directly involves the issue of the distribution of state money. A third pending case also has the potential to impact state funding of primary and secondary education.

Horton v. Meskill. In the first of these cases, *Horton v. Meskill*, the Connecticut Supreme Court established the basic principle that guides the state's approach to educational finance when it declared that significant disparities in school expenditures result in impermissible disparities in educational opportunity.

The Horton case actually comprises three separate decisions *(172 Conn. 615 (1977), 187 Conn. 187 (1982), and 195 Conn. 24 1985))*. The first (1977) and the third (1985) decisions focused on the distribution of state aid for education, while the second (1982) involved a procedural issue that denied several towns the ability to intervene in a lawsuit filed subsequent to *Horton I*.

When the initial suit was filed about 70 percent of school funds came from local governments, while 20 to 25 percent came from the state and 5 percent from the federal government. The state dispersed some money through a few categorical grants, but the majority of state aid was distributed through a flat $250 per-pupil grant to each town.

Funds raised by municipalities came primarily from the local property tax. The court found a significant factor in determining the amount a municipality spent or is able to spend on education depended on the amount of taxable property in each town. When the court examined the dollar amount of taxable property per pupil in each town, it found a wide disparity in the

yield per pupil (that is the value of taxable property divided by the number of pupils), ranging from $20,000 per pupil to about $170,000.

Thus, in property-poor towns, taxpayers paid higher tax rates, yet generated comparatively smaller tax revenues and spent less on education. In property-rich towns, less tax effort (lower rates) generated more money for education. For example, the court noted average per pupil operating expenditures in the poorest towns were 35 percent less that the richest, while the average net mill rate in the poorest towns was 2 ½ times that of the richest towns.

The court concluded the financing system ensured more funding went to children in property-rich towns than to children in property-poor towns regardless of educational need. This allowed property-rich towns to offer a wider range and higher quality of educational services. The court asserted there is a direct relationship between the breadth and quality of education and per pupil expenditures because many elements of a quality education (such as course offerings, special education accommodations, teaching resources, teacher to student ratios, etc.) require higher per pupil expenditures. The court found property-poor municipalities cannot afford to spend the same amounts property-rich towns can, on a per pupil basis, and the state's flat per-pupil grants had little equalizing effect in affording property-poor towns a meaningful choice as to the educational programs to be offered.

By combining article first, sections 1 and 20 (equality of rights and equal protection) of Connecticut's Constitution with article eight, section 1 (free public schools), the court affirmed the Superior Court's finding that the state's method of financing education, relying on the local property tax base without regard to the disparity in the ability of the towns to finance an educational program and with no equalizing state support, violated the constitutional mandate to provide "substantially equal educational opportunity" to its children through free public schools.

The court, in essence, required the state to allocate governmental support for education in such a way as to offset any significant disparities in the financial ability of municipalities to finance local education through the property tax. Thus, the court implied state funding of education should not be designated to benefit all towns equally, as through a flat grant.

The court did not believe it was its responsibility to fashion an acceptable public school financing system and left that duty to the General Assembly. It noted, though, that a remedy need not require all towns to spend the same amount for the education of each student nor would it require the loss of local control.

In *Horton III* (1985), the school funding distribution formula adopted by the General Assembly, called the Guaranteed Tax Base (GTB), and amendments to that formula in response to *Horton I* were challenged. In it's *Horton III* ruling, the Connecticut Supreme Court established a new, three-step test to determine if the educational financing formula met the state's constitutional obligation. This test required:

1. The plaintiffs make a prima facie showing that disparities in educational expenditures are more than minimal in that the disparities continue to jeopardize the plaintiffs' fundamental right to an education. All parties conceded in this proceeding that the evidence before the trial court

demonstrated the continued significant disparities exist in the funds that local communities spend on basic public education;

2. If they made that showing, the state had to justify these disparities as incidental to the advancement of a legitimate state policy. The Connecticut Supreme Court agreed with the trial court's findings that an adequately funded GTB was an acceptable response to the problem of disparate local education expenditures, its five-year phase-in assured an efficient use of educational resources, and a number of factors beyond the state's control tended to increase some of the discrepancies, such as property values increasing more rapidly in wealthier communities; and
3. If the justification was acceptable, the state must show that continuing disparities were not so great as to be unconstitutional. Relying on the trial court's finding that the effect of the GTB was to narrow significantly disparities in the ability of local communities to finance local education, the court concluded that the remaining disparities did not undermine the basic policy of equalizing state support.

Consequently, the court upheld the Superior Court's decision that the GTB was constitutional. However, it determined the lower court did not use the proper standard in determining if subsequent amendments to the GTB were constitutionally valid and the lower court failed to allow all interested parties an opportunity to be heard on the question of remedies. The court returned the case to back to the Superior Court for further hearings and judgment.

The court also agreed with the lower court's judgment on several other issues, including:

- the system of distributing categorical grants (special education, transportation, and school construction) was constitutional because the plaintiffs could not show they "impinge on the fundamental right to a substantially equal education;" and
- rejected the plaintiffs' request to require the state to provide 50 percent of overall educational expenditures as the only constitutionally adequate response.

Sheff v. O'Neill (238 Conn. 1 (1996)). The *Horton* decisions dealt specifically with school financing, whereas the *Sheff* case involved the concentration of racial and ethnic minority school children within the Hartford school system. Relying on similar constitutional provisions as *Horton* (article first, section 20 and article eighth, section 1), the Connecticut Supreme Court found the existence of "extreme racial and ethnic isolation in the public school system deprives schoolchildren of a substantially equal educational opportunity." Although, one count by the plaintiffs' did allege disparities in educational resources, the court did not evaluate the constitutionality of the claim because the plaintiffs did not contend that the distribution of state aid was unconstitutional.

Johnson v. Rowland. This case was filed in 1999 and does not yet have a trial date. The plaintiffs, seven schoolchildren from East Hartford, Seymour, Meridan, New Britain, Hamden, and Bridgeport, complain that the state, by not fully funding the Educational Cost Sharing

formula, the state's primary educational aid program, is not fulfilling its constitutional mandate. The suit argues that various changes made to the formula, such as the cap on the growth of any municipality's grant, the stop-loss provisions, and the failure to increase the foundation, have served to undermine the equalizing effect of the formula.

State Board of Education Policies

The State Board of Education outlines its goals and priorities for education in the state comprehensive plan for education, which it is required by statute to prepare every five years and update annually. This document guides development of all board policies including its budget requests and legislative proposals.

Five statutory goals adopted in 1997 in response to the *Sheff v O'Neill* Supreme Court decision are the foundation for the state plan and board policies. The goals, as set forth C.G.S. Section 10-4p, are:

- to achieve resource equity and equality of opportunity;
- to increase student achievement;
- to reduce racial, ethnic, and economic isolation;
- to improve effective instruction; and
- to encourage greater parental and community involvement in all public schools.

Under the current comprehensive plan, *Greater Expectations: Connecticut's Comprehensive Plan for Education 2001-2005,* the board's overall policy is to ensure all Connecticut students achieve standards of excellence, no matter what community they reside in or what challenges they face. In a February 1998 position statement, the board defined equal educational opportunity, required under C.G.S. Section 10-4, as:

> student access to a level and quality of programs and experience which provides each child with the means to achieve the standard of an educated citizen defined by Connecticut's Common Core of Learning.[1]

The board further stated evidence of equal educational opportunity is the participation and achievement of each student in challenging educational programs regardless of factors such as family wealth, race, sex, or town of residence.

In the area of school finance policy, the board supports increasing the state's share of education costs and reducing reliance on local property tax revenues as a way to reduce inequities among districts. The board's goal is to achieve equal state-local share of the total cost of public schools within the life of the current five-year plan or shortly thereafter. Among the financing actions forwarded by the board in the current plan are:

[1] The common core of learning is a reference document adopted by the board that describes the skills, knowledge, and aspects of character necessary for employment, further education, and becoming a productive member of society. In essence, it is what a Connecticut high school graduate should know and be able to do as a result of participating in the entire K-12 school experience.

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- more systematic increases in state equalization funding (the ECS grant);
- continued growth in targeted aid for children most in need;
- more state aid to mitigate the impact of rising special education costs on local districts; and
- continued financial commitment to school construction and renovation projects.

Measures of Equal Educational Opportunity

Resource equity has traditionally been assessed by measuring disparities in per pupil expenditures. Initially, school finance litigation focused on spending measures that indicated horizontal equity (e.g., equal spending for equally situated students) and later expanded to include measures of vertical equity (e.g., differential spending based on differing needs) and fiscal neutrality (e.g., no systematic relationships between a district's wealth and educational spending). Most recently, a few states have begun to develop measures of educational adequacy (e.g., funding sufficient to produce specified levels of achievement) but these efforts are still in very preliminary stages. Whatever approach is taken to assessing equity, values are involved in the choices made about the type of equity (student or taxpayer) examined, the principles applied (horizontal, vertical, etc.), and the even statistical measures used.

Much of the analysis in the Horton case focused on per pupil spending differences and horizontal equity measures. To a lesser extent, variation in other types of inputs (teachers, textbooks, etc.) was also examined while other measures of educational quality were discussed in concept. Committee findings regarding the current status of the court's expenditure measures followed by an assessment of selected other resource measures referenced in the Horton decisions are presented below.

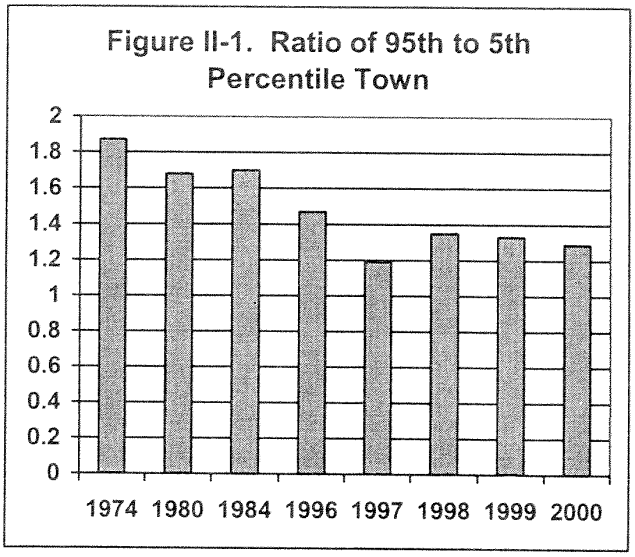
Expenditure Measures

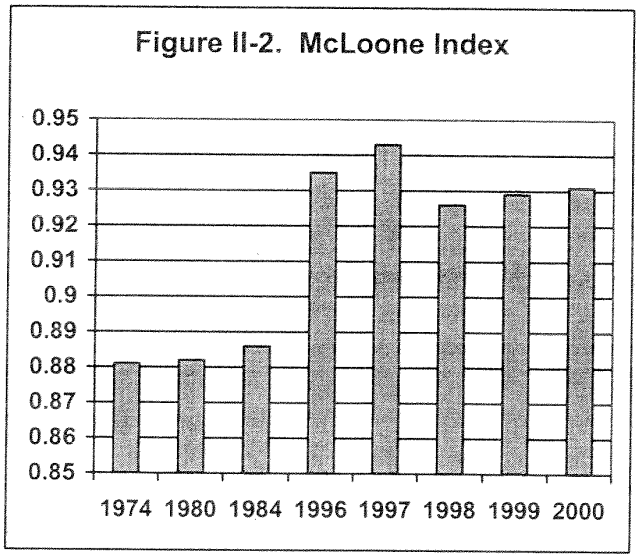
In the Horton cases, the Connecticut Supreme Court employed several commonly used statistical measures of disparity to compare educational expenditures among towns. The three main statistics used to measure education finance equity -- the 95:5 ratio, the McLoone Index, and the coefficient of variation -- are examined below for selected years between 1974 and 1999. The measures should be considered together because each evaluates different aspects of spending variations. It is also important to keep in mind none of the measures consider adequacy of spending, but only reflect funding distribution.

Ratio 95:5. This measure is calculated by dividing the net current expenditures per pupil for the 95th percentile town (i.e., the ninth highest Connecticut town as measured by Equalized Net Grand List wealth per pupil) by the 5th percentile town (i.e., ninth lowest town). Thus, increasing values means greater disparity.

Analysis. Figure II-1 shows disparity as measured by this ratio has declined since the Horton case was filed. The percentage gap has closed from 87 percent in 1974 to 29 percent in

2000. While dramatic improvement in this ratio has occurred over the 25-year time span, in the most recent years it has stabilized around the 30 to 35 percent range.





Characteristics of measure. This measure compares a high town to a low town but avoids extreme or outlier amounts. The measure will decrease in response to equal dollar additions but not equal percentage additions in both towns. A significant limitation of this measure is that it only compares two towns and does not reflect changes in the other 167 towns.

McLoone Index. This index is a measure of variation of the towns' expenditures below the median town (i.e., the town at the middle). The index measures from zero to one, and the closer the index is to one the smaller the disparity. This is calculated by summing the per pupil expenditures of the 84 towns in Connecticut below the median and dividing it by the sum of 84 times the median per pupil expenditure – that is the amount those towns would have spent if they all spent the median amount.

Analysis. Figure II-2 shows the index improved since 1974 going from .881 to .931 in 2000. The index in the late 1990's shows variation with a high in 1997 of .943 to low in 1998 of .928.

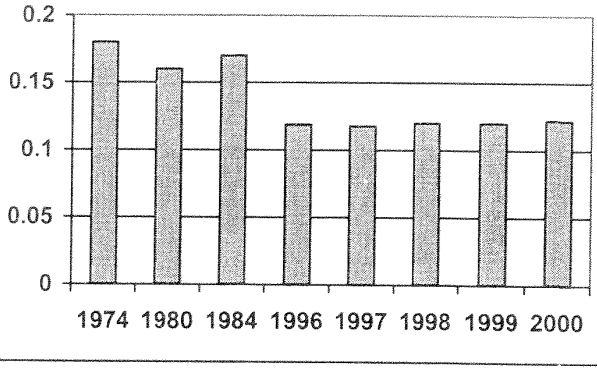
Characteristics of measure. If the focus of the finance system is to raise the lower spending towns, this measure is suitable because it focuses on the range of towns below the median. On the other hand, it does not account for the variability of spending above the median or among the entire range of spending. This measure is not responsive to equal percentage changes in towns below the median but does change in response to equal dollar amounts below the median.

Coefficient of Variation. This is a statistical measure that indicates how widely expenditures vary around the average. The closer the coefficient is to zero, the lesser the disparity among the towns.

Analysis. As shown in Figure II-3, the coefficient of variation has declined since 1974 from .18 to .122 in 2000 – indicating decreasing disparity.

Characteristics of measure. An advantage of this measure is that it is calculated based on expenditures in all towns by comparing each expenditure to the average. The measure will change in response to equal dollar additions in all towns but does not respond to equal percentage changes in all towns.

Figure II-3. Coefficient of Variation



Expenditure trends. Table II-1 presents a comparison of expenditures per pupil for the high, mean, and low spending towns for selected years between 1974 and 2000.

- Both the highest and the lowest spending towns' expenditures edged closer to the statewide average. The high town's spending was 55 percent greater then the mean in 1974 and was 40 percent greater in 2000. The low town was 34 percent lower than the mean in 1974 and 20 percent in 2000.

- The ratio of the highest to the lowest spending town decreased from 2.33 to 1.76 – meaning the difference between high town spending and low town spending was reduced from 133 percent to 76 percent.

Table II-1. Comparison of Net Current Expenditures Per Pupil, Selected Years 1974-2000

Year	*High Town*	*Percent Difference from Mean*	*Statewide Mean*	*Low Town*	*Percent Difference from Mean*	*High/Low Ratio*
1974	$1,656	55%	$1,070	$711	-34%	2.33
1980	3,029	54%	1,973	1,365	-31%	2.22
1984	4,867	58%	3,075	2,035	-34%	2.39
1996	10,457	42%	7,376	5,733	-22%	1.82
2000	11,737	40%	8,385	6,674	-20%	1.76

Source: State Department of Education, Horton v. Meskill (195, Conn. 24 (1985)), and LPRIC calculations

In summary, the analysis of education expenditure measures produced the following findings.

- *All statistical measures indicate disparity in educational expenditures has declined over the last 26 years and that the state has made significant progress in this area since 1974.*

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- *The 95:5 ratio dropped from 87 percent in 1974 to 29 percent in 2000.*

- *The McLoone Index has improved from .881 in 1974 to .931 in 2000.*

- *The coefficient of variation declined since 1974 from .18 to .122 in 2000.*

- *However, the spending measures show little variability in the late 1990s, perhaps indicating the funding system as currently configured and supported has reached its maximum level of equity.*

Other Resource Equity Measures

Per pupil expenditure is the primary but not the only measure used by the court and others to determine how well the state is meeting the goal of resource equity. In the Horton decision, the court found the criteria for evaluating quality of education include:

- size of classes;
- training, experience, and background of teaching staff;
- materials, books, and supplies;
- school philosophy and objectives;
- type of local control;
- test scores as measured against ability;
- degree of motivation and application of the students; and
- course offerings and extracurricular activities.

Further, the court found wealthier districts had a *"substantially wider range and higher quality educational services"* in such areas as: course offerings; special services; library and other resources; and ratios of teacher to students, specialist teachers to students, guidance counselors to students, and other similar relationships.

Recent data compiled by the state education department related to the court's education quality criteria were examined to begin to assess the current degree of variation among districts in a number of these areas. Detailed district expenditure information and key indicators of resource equity and student achievement regularly collected and reported by SDE are summarized below. In general, the selected indicators have been tracked for less than 10 years so long term trends since the Horton decision cannot be identified.

It is important to note that unlike the total per pupil expenditure data discussed above, the detailed resource and achievement information summarized below is compiled primarily on a

school *district* rather than *town* basis.[2] Measures are generally available by district, type of district (PK-12, elementary, regional secondary) and educational reference group (ERG) -- the department's system for classifying districts according to multiple demographic measures.

ERGs were designed to allow comparisons of nine groups of districts with similar socio-economic and student need characteristics.[3] At present, all 166 public school districts are grouped into nine ERGs, A through I, with A including 12 of the wealthiest communities in the state and I comprised of the seven poorest large cities. In the following analysis, averages for the selected indicators by ERG were used as a proxy for comparing districts by relative wealth. Comparisons between ERG A and ERG I were highlighted to simulate the 95th and 5th percentile wealthiest towns analysis presented in the preceding expenditure discussion.

Allocation of resources. Each year the state education department collects district level expenditure data by two broad types of cost categories – major function (e.g., instruction, pupil support, school-based and general administration, plant services, buildings and debt service, and transportation) and major object (e.g., salaries, benefits, supplies, equipment, tuition, purchased services). SDE function and object data were examined to try to develop a general picture of district spending patterns and produced the following findings.

- *Overall, the data show the bulk of school district budgets -- about two-thirds on average -- is allocated for costs that support direct instruction of students, i.e., salaries and benefits of regular and special education classroom teachers and classroom materials, supplies, and equipment.*

- *There is a wide range in the per pupil spending on major functions and objects even among the same type of district*. The least variation among full-grade (prekindergarten to 12) district spending patterns was in the two largest (excluding tuition) categories of costs -- the instructional program function and the salaries budget object.

- In terms of budget function, for the 110 prekindergarten to grade 12 districts in FY 00:

[2] There are currently 166 public school districts in Connecticut, 17 of which are regional and serve from two to six towns. Overall, 102 communities are single town prekindergarten through grade 12 districts, 47 towns operate their own elementary schools and participate in one of the eight regional secondary districts (or pay to send their high school students to another public secondary system), and 20 towns operate no schools but are part of regional districts (and may also tuition students to other systems) .

[3] The current ERGs were created in 1996 and are based on the following factors: median family income; percentage of children with at least one parent with a BA or higher degree; percentage of children's parents with executive, managerial, and professional occupations; portion of children receiving AFDC in 1994; percentage of children living with a single parent or in a nonfamily household; percentage of children whose families speak a language other than English at home; and weighted district enrollment. According to SDE, the ERGs will be revised based on 2000 census data by 2005.

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- *the difference between the highest and lowest per pupil spending for the two primary education budget functions, instructional program and pupil support, was substantial -- over $3,144 and $1,168, respectively; and*

- *the greatest variation in spending by function was in the building and debt service category (from $140 to $5,129 per pupil in FY 00). This is not unexpected given the great diversity of the size, scope, and age of school construction projects among districts.*

- In terms of FY 00 spending by budget object for the prekindergarten to grade 12 districts:

  - *the difference between the minimum and maximum amounts spent per pupil for the two primary education budget objects associated with instruction -- salaries and employee benefits -- was also significant -- $3,578 and $1,117, respectively; and*

  - *the largest dollar differences for any budget object, with a range of $47,070 in FY 00, were in tuition costs per pupil placed out of district, mirroring the broad spectrum of special student needs among districts.*

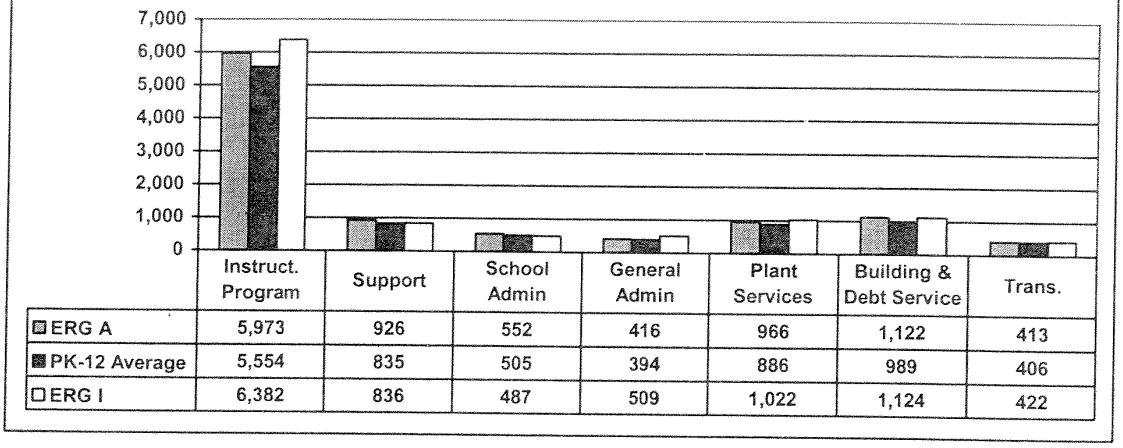
Many factors are associated with the variation in spending patterns among districts, from the district's wealth to its size in terms of enrollment and geography, the number, age and condition of school buildings, administrative structure (centralized or decentralized), and needs of the student population. More extensive analysis is needed to determine how much disparity is due to a town's ability to support educational services versus other district characteristics. Looking at spending patterns by ERG, however, resulted in the following observations.

- *For the main categories of education budgets – instructional program, pupil support, plant services, and salaries and employee benefits -- the two top and bottom ERGs (A and B, and H and I, respectively) had the highest per pupil expenditures in FY 00.*

- *Per pupil spending in ERGs A and I are both above the average for full grade districts for all but three categories, school-based administration, benefits, and instructional equipment. (See Figures II-4 and II-5, below.)*

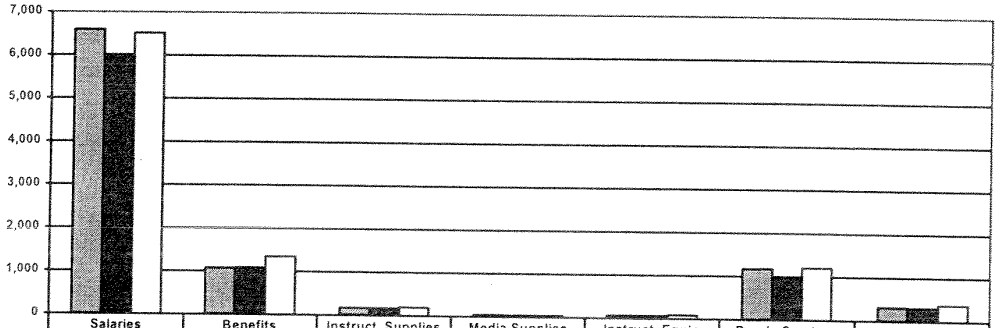
- *Overall, ERG I per pupil expenditures were greater than ERG A spending in all but four cost categories (the functions support and school-based administration and the objects employee benefits and instructional supplies).*

Figure II-4. FY 00 Per Pupil Expenditure by Major Function for ERGs A and I



	Instruct. Program	Support	School Admin	General Admin	Plant Services	Building & Debt Service	Trans.
ERG A	5,973	926	552	416	966	1,122	413
PK-12 Average	5,554	835	505	394	886	989	406
ERG I	6,382	836	487	509	1,022	1,124	422

Figure II-5. FY 00 Per Pupil Expenditures by Major Object For ERGs A and I



	Salaries	Benefits	Instruct. Supplies	Media Supplies	Instruct. Equip	Purch. Services	Other
ERG A	6,591	1,078	179	49	67	1,176	328
PK-12 Average	6,010	1,090	177	39	68	1,005	314
ERG I	6,509	1,351	198	43	90	1,205	382

The fact that spending levels by category for ERG A and ERG I are both above average in nearly every case indicates the impact of directing state aid to the neediest districts. The high expenditures in ERG I also probably reflects the legislature's recent emphasis on improving the performance of priority school districts with additional resources from targeted state grants.

Input measures. As part of a statutory mandate to measure disparities and monitor progress toward the state's goal of resource equity and equality of opportunity, the state education department gathers information on a number of input measures considered critical to education quality. Five of the key resource indicators tracked by the state board of education -- students per certified staff, students per computer, the percentage of school facilities rated good or better, the percentage of kindergarteners with preschool experience, and the number of

advanced placement course examinations taken per 1,000 high school students -- are summarized in Table II-2.

Table II-2. Key Education Resource Progress Indicators: 1996 and 1999

	Students / Cert. Staff		*Students / Computer*		*% Facilities Rated Good or Better*		*% with Preschool Experience*		*# AP Exams Taken / 1000 Students*	
	1996	*1999*	*1996*	*1999*	*1996*	*1999*	*1996*	*1999*	*1996*	*1999*
Mean	12.1	11.7	7.4	5.2	61.3	65.8	74.2	76.8	143	200
Min	8.0	8.0	2.8	1.7	6.5	18.5	15.9	7.1	0	0
Max	15.4	14.2	36.1	10.5	94.8	100	100	100	690	893

The program review committee found in just the three-year period covered in the table there have been statewide improvements in each area.

- *On average, since 1996:*
  - *student to staff ratios are lower;*
  - *more computers are available to students;*
  - *the portion of school facilities rated as good or better is larger;*
  - *a greater percentage of children enter kindergarten with preschool experience; and*
  - *more high school students are participating in advanced placement courses.*

- *Further, while gaps between the minimum and maximum values are fairly large, they decreased between 1996 and 1999 for three measures -- student to staff ratio, student to computer ratio, and facility quality.*

Analysis of the key resource indicators by ERG also showed improvement across all groups on each measure over the past three years. In most cases, the two top ERGS (A and B) tended to rank the highest on all measures although in 1999, a mid-level ERG (E), had the lowest ratios of student per staff and student per computer. As Figure II-6 shows, the top and bottom ERGs (A and I) were fairly close on two indicators but there were substantial differences between them on three others. Specific results are noted below.

- Among the ERG groups, differences in average student to staff ratios were relatively small; the number of students per certified staff only ranged from 10.8 to 12.4 in 1999. Further, the ratio for the bottom ERG was lower (by 0.2) than the statewide average as well as the ratio for the top ERG.
- On average, the student to computer ratio statewide dropped 30 percent (from 7.4 to 5.2) between 1996 and 1999. Gaps among ERGs also decreased; the number of students per computer in ERG I, while highest for all groups, was only 0.5 higher than the ERG A ratio.

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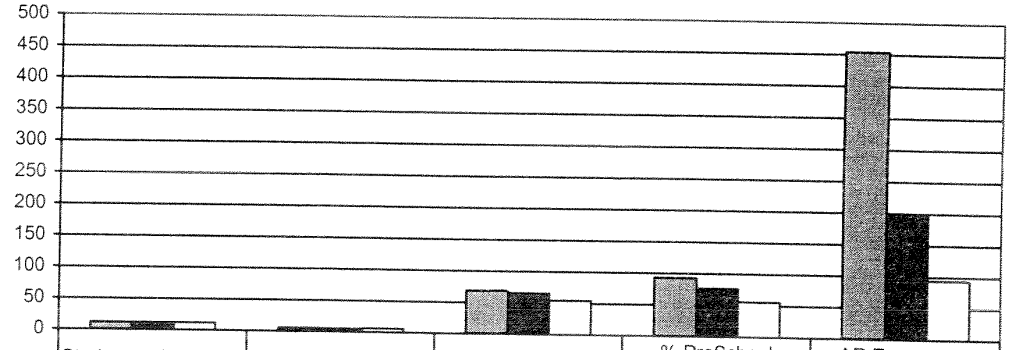
- While the condition of school facilities improved across all ERG groups, the bottom ERG still lags below the others in percentage rated good or better (54 percent versus 66 percent on average).
- Disparities among ERGs in the portion of kindergarteners with preschool experience diminished, but the gap between the top and bottom groups remains large. Statewide, about three-quarters of kindergarteners attended preschool while nearly all have in the top ERG and just over half have in the bottom ERG.
- Participation in advanced placement examinations was much higher in the top two ERGs than in all other groups. For the bottom ERG in 1999, the number of exams taken per 1,000 students was about half the statewide average and just 21 percent of the rate of the top ERG.

Figure II-6. 1999 Key Resource Indicators: ERGs A and I



	Students / Cert. Staff	Students / Computer	% Good + Facilities	% PreSchool Experience	AP Exam/1000 Students
ERG A	11.7	5.5	68.8	92.8	454
State Mean	11.7	5.2	65.8	76.8	200
ERG I	11.5	6	54.2	55.7	94

Two additional input measures considered important to education quality but not included as the board's key resource indicators were examined. State education department data on hours of instruction per year and class size for 1996 and 2000 are summarized in Table II-3.

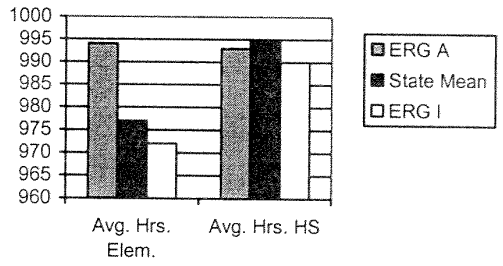
Table II-3. Instructional Hours and Class Size Measures: 1996 and 2000

	Avg. No. Hours Elem.		*Avg. No. Hours HS*		*Avg. Elem. Class Size*		*Avg. HS Class Size*	
	1996	*2000*	*1996*	*2000*	*1996*	*2000*	*1996*	*2000*
Mean	959	977	975	995	21.4	21.1	20.3	20.0
Min	901	921	901	916	13.0	9.3	13.7	14.5
Max	1,069	1,058	1,062	1,100	26.2	25.3	24.9	25.5

Like the key resource indicators, there has been improvement on both of these measures over time; on average, instruction time increased for the elementary and high school levels and class sizes at both levels were slightly smaller. Gaps between the minimum and maximum values are large – more than 100 hours in instructional time and over 10 students in class size for both levels for 2000. Variations between the top and bottom ERGs, as shown in Figures II-7 and II-8, were much less dramatic.

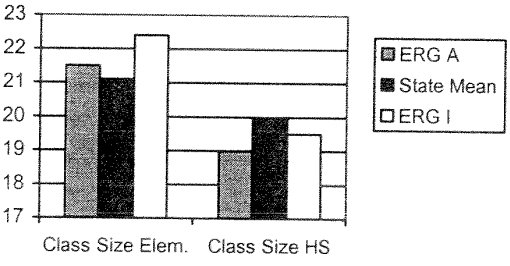
- *Differences between ERG A and ERG I in average hours of instruction per year were relatively small in 2000.* Both groups were slightly lower than the state average in high school instructional time and ERG A exceeded ERG I by only three hours. Elementary instructional time for the bottom ERG was just five hours below the state average and 22 hours less than the top ERG, which was the highest for all groups.

Figure II-7. Average Instructional Hours



- *Class sizes were also fairly close for ERGs A and I.* The average high school class size was less than the state average for both the top and bottom groups (although the smallest class sizes for elementary and for secondary schools occurred in the mid-level ERG E). ERG I did have the highest elementary level class size but exceeded ERG A by less than one and the state average by just over one.

Figure II-8. Average Class Size



Outcome measures. The key indicators used by the state board to track progress toward equal educational opportunity include outcome as well as input measures. District level data on the board's five measures of student performance, which are based on a broad range of standardized tests results – fourth grade reading scores, sixth grade math scores and eighth grade writing scores from the Connecticut Mastery Tests (CMTs), science scores from the 10th grade Connecticut Academic Performance Test (CAPT) and total scores from the national Scholastic Aptitude Test (SAT) -- are summarized in Table II-4. Committee observations follow.

Table II-4. Key Performance Indicators: Standardized Test Results 1996 and 1999

	CMT 4th Gr. Reading		*CMT 6th Gr. Math*		*CMT 8th Gr. Writing*		*CAPT Science*		*SAT Total Score*	
	1996	*1999*	*1996*	*1999*	*1996*	*1999*	*1996*	*1999*	*1996*	*1999*
Mean	51	51	121	122	8.2	8.1	257.1	258.7	1022	1024
Min	37	40	83	91	6.0	6.2	201.6	207.3	759	778
Max	60	66	139	144	10.0	9.6	290.9	288.8	1161	1160

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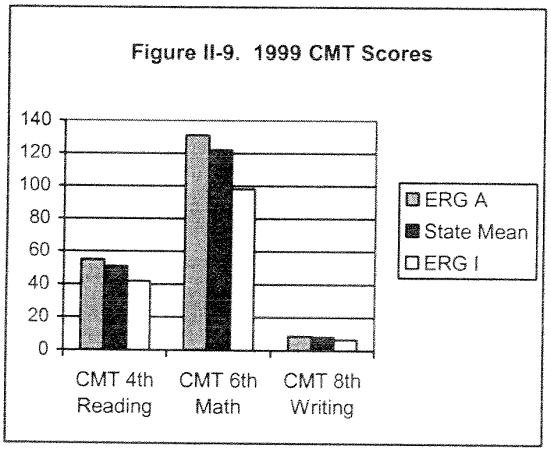
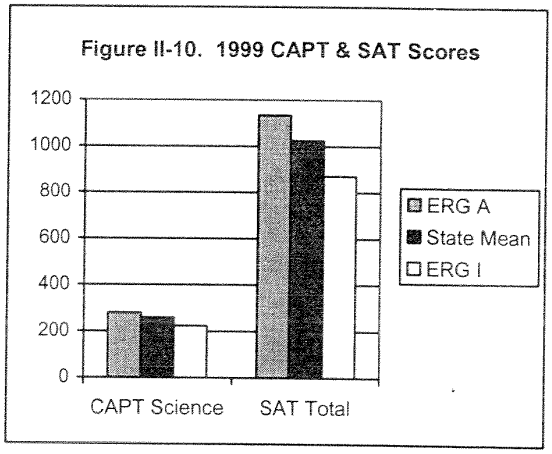
- *There was very little change in test scores over the three year period.* In general, small gains were made by ERG I and several other lower ERGs while performance indicators for the higher ERGs remained fairly stable between 1996 and 1999.
- *Differences between minimum and maximum values for each measure were large*, with the high ranging from about 40 percent up to 65 percent greater than the low for 1999.
- *Examining student performance measures by ERG showed the indicators were always best for ERG A and worst for ERG I.* For all measures except SAT scores, the measures rose steadily moving from the bottom to the top group.
- *In 1999 ERG A was about 30 percent higher than ERG I for four student performance measures and 25 percent higher for the remaining one* (CAPT Science). State averages also exceeded the bottom ERG measures (by about 16 to 24 percent) for all five key performance indicators. (See Figures II-9 and II-10, below.)





The state board tracks two additional outcome measures, drop out rates and percentage of students pursing higher education as key indicators. Analysis of data on these measures, summarized in Table II-5, shows:

Table II-5. Additional Key Performance Indicators: 1996 and 1999

	Drop Out Rate		*% Pursuing Higher Education*	
	1996	*1999*	*1996*	*1999*
Mean	3.2	2.7	82.2	81.0
Min	0	0	57.5	59.0
Max	15.7	12.1	100.0	98.8
ERG A	0.4	0.5	93.5	93.1
ERG I	10.2	8.8	74.6	73.2

- the top ERGs were also best on these outcome indicators and there are large difference, between the ERG A and ERG I;
- in 1999, the drop out rate in the bottom ERG, although steadily improving over time, was more than twice that of any other group; and

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- in 1999, the ratio of students pursuing higher education in ERG A was 30 percent higher than ERG I. However, two groups (E and G) had percentages lower than the bottom ERG.

In summary, analysis of measures of resource equity other than per-pupil spending resulted in the following findings.

- *Spending patterns of the top and bottom ERGs, which represent the wealthiest and poorest districts in the state, are similar; both generally spend above the state average across major cost categories.*

- *Indicators of staff and equipment resources (i.e., ratios of staff to student, student to computer, and class size) are also fairly close for the top and bottom ERGs but disparities in input measures related to facility condition and student characteristics (i.e., preschool experience, and participation in advanced courses) are large.*

- *The gap between the top and bottom ERGs on all outcome measures is substantial. ERG I is below the state average for each indicator of student performance as well as for the portion of graduates pursing higher education. Its drop out rate is also well above that of any other group.*

Recommendation

The information and analysis presented above show several trends. Spending disparities, especially between the wealthiest and poorest communities have greatly diminished with the advent of school finance reforms that increased and equalized state aid to towns. Targeted aid for the neediest communities in the state also seems to have narrowed district differences on several key education input indicators. In contrast, there has been substantially less progress made in reducing variation in student performance and other outcome measures.

Whether the current trends are satisfactory and at what point the measures show an acceptable level of equity has been achieved, however, are judgments for the legislature and the courts to make. As the analysis highlights, assessing the success of the school finance system in meeting the goal of resource equity and equal educational opportunity requires evaluation of a range of measures and probably the development of new indicators. Continued monitoring of resource and performance indicators is critical to accountability.

Much of the resource equity information developed for this section is prepared and published by the state department of education in its statutorily required planning documents, annual school profiles, and yearly reports on the condition of education and education expenditures. Some data, most notably the expenditure disparity statistics, are not regularly compiled or reviewed. In addition, while the state board has chosen to develop key indicators of resource equity as part of its planning mandates, there no is statutory requirement to establish and report on specific performance measures in this area.

The program review committee believes policymakers should be well aware of the state's progress toward equal education opportunity since it is a constitutional matter as well as the subject of ongoing litigation. To ensure this occurs, the committee recommends:

> **the state board of education, in a format developed in consultation with the legislature's education committee, submit to the governor and the General Assembly each year by January 1, an analysis of key performance measures of resource equity and equal education opportunity. The measures should include but not be limited to generally accepted school finance equity statistics, specifically the 95:5 ratio, the McLoone Index, and the coefficient of variation, and indicators of instructional program quality such as student-to-staff ratio, class size and instructional hours, teacher quality, adequacy of equipment and facilities, and student achievement, such as standardized test results and post-graduation pursuits.**
>
> **In addition, a fiscal impact statement shall be prepared for any bill related to the education cost sharing grant and shall include at a minimum an analysis of the impact of the bill's provisions on three school finance equity statistics, the 95:5 ratio, McLoone Index and coefficient of variation, calculated using the most recently available fiscal year data.**

Under the committee recommendations, the status of disparities in educational resources among districts will be regularly reviewed and reported to the legislature, using consistent and generally accepted measures. The positive step taken by the state board in establishing key indicators to track resource equity progress is formalized and expanded to include legislative participation in the selection of meaningful measures. Policymakers and the public will also have a better idea of whether equalization goals are advanced or impeded by changes to the ECS grant before final action is taken on pending education finance bills.

Chapter III

Educational Cost Sharing Grant Program

The focus of this chapter is a description and analysis of each component of the ECS formula pictured in the figure below -- base aid; supplemental aid; regional bonus; density supplement; and special adjustments.

Educational Cost Sharing Grant Components

ECS Grant = [Base Aid + Supplemental Aid + Regional Bonus] * + Density Supplement

* Subject to Special Adjustments

The impact of these formula factors on total ECS funding levels is outlined below, both in terms of ***formula aid*** -- the grant amount computed under the basic formula without special adjustments or any density supplement – and ***entitlement aid***, the ECS payments towns actually receive after all factors are applied.

Base Aid

The base aid component is the most significant in that it is responsible for about 99 percent of the total ECS aid distributed by the state. The formula for calculating base aid is shown below. It will be repeated with the relevant component highlighted at the start of each subsection.

Foundation

Formula for Calculating a Town's Base Aid

Base aid = Foundation X Need Students X Base Aid Ratio

The foundation is one of the key components used in calculating base aid. Theoretically, the foundation represents the minimum amount of money necessary to provide an adequate education for an average student on a per-pupil basis. The intent was for the foundation to have a built in cost-adjustment factor based on costs of the 80th percentile need student. The 80th percentile need student was determined by ranking all towns from high to low based on their regular program expenditures three years prior to the year in which the foundation was being set.

However, in 1992 the foundation was frozen at $4,800. In 1995, it was raised to $5,711 to compensate for the consolidation of special education funding into the ECS formula. The foundation is currently $5,891.

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To demonstrate the impact of changing the foundation level on aid amounts, Table III-1 shows the results of adjusting the original phased-in foundation of $4,800 and the 1995 level for inflation. The table also shows what the foundation would be if it was set at the current 80th percentile.

Table III - 1. Impact of Changes in the State Foundation

Foundation	*Inflation Adjusted (in 2001 dollars)*	*Increase Over Current Formula Aid*	*Increase Over Current Entitlement Aid*
$4,800 (Original)	$6,871	$250,151,137	$25,795,025
5,711 (1995 level)	6,652	194,250,029	24,103,151
7,349 (current 80th percentile)	7,349	372,163,640	29,937,841

The key findings are listed below.

- *Using the cost of 80th percentile need student to establish the foundation as set forth in the original ECS statute would require a foundation level of $7,349, and increase of $1,458 over the current level of $5,891.*
- *Adjusting the original foundation level for inflation would require a present day foundation of $6,871, and increase of $980.*
- *Per pupil spending by every town in the state exceeds the current foundation level.*
- *The gap between the current foundation level and the statewide median net current expenditures per pupil for 2000 was $1,451*
- *The spread between real net current expenditures per pupil and the current foundation has been growing at annual rate of slightly more than 3 percent a year over the last four years.*

Committee staff believes as the gap between the state foundation level and the actual spending by school districts widens the credibility of the entire formula is threatened. To assure the integrity of the ECS grant program is maintained, the committee recommends the following.

Establishment of an educational cost commission to set and systematically update the foundation level.

The commission's initial foundation level shall be reported to the governor and General Assembly on January 1, 2003, and every four years thereafter.

The governor and General Assembly shall in all actions relevant to state financing of local education follow the foundation level set by the commission.

The commission shall consist of seven members including the commissioner of education; two representatives of local boards of education appointed by the governor; two representatives of superintendents of local school districts,

one appointed by the speaker of the house and one by the minority leader of the senate; and two representatives of local school district teachers, one appointed by the senate president pro tempore and one appointed by the minority leader of the house of representatives.

The foundation shall reflect the minimum amount of money necessary to provide an adequate education for an average student.

In developing the foundation the commission shall contract with the Connecticut Center for Economic Analysis at the University of Connecticut or a similar entity to provide technical support and services.

Need Students

Formula for Calculating a Town's Base Aid

Base aid	=	Foundation	X	Need Students	X	Base Aid Ratio

Need students refer to the number of resident students in a town, weighted for three student characteristics generally recognized to increase educational need -- poverty, remedial-level performance on standardized proficiency tests, and limited English proficiency (LEP).

The figure below shows the factors and weights used in the current formula for calculating each town's need students:

Formula For Calculating Need Students

Total Need Students	=	Resident Student Count	+	25 % TFA Count (Poverty)	+	25 % Mastery Count (Remedial Perform.)	+	10 % LEP Count

Resident student count: number of children enrolled in public school, pre-kindergarten to grade 12, at the expense of the town. The resident student count is also weighted for an extended school year and tuition free summer school and credit for pupils who participate in the statewide interdistrict ("OPEN Choice") program is shared (half each) between the sending and receiving school districts.

TFA count: number of children in the town aged five through 17 who are eligible for the Temporary Family Assistance (TFA) program.

Mastery count: number of resident students times the town's mastery percentage, a three-year rolling average of the proportion of state mastery test scores at or below the remedial level.

LEP count: number of children with limited English proficiency who are not served by mandatory bilingual education programs.

The idea of weighting certain classes of students is a carryover from the GTB formula, which added .50 to the resident student count for each child considered eligible for antipoverty assistance. The initial ECS program reduced the poverty weight to .25, but added a weight of .25 for performance below the remedial level on the mastery test. In 1995, the .10 weighting for students with limited English proficiency was included in the ECS formula.

To demonstrate the impact of the need weighting on ECS formula and entitlement aid committee staff examined the outcome of eliminating and doubling the weights. The results are shown in the Table III-2.

Table III-2. Impact of Student Need Weights

	Current	*Eliminate Weights*	*Double Weights*
Formula	$1,506,016,589	$1,317,736,175	$1,694,787,972
Entitlement	$1,458,693,614	$1,442,303,150	$1,480,740,241

In reviewing the Connecticut's system for weighting need students the committee staff found the following factors.

- *The weights increased the statewide resident student count for October 2000 by about 6.6 percent.*
- *On a town-by-town basis, weighting for need increased the student count from less than 1 percent (Simsbury) to nearly 23 percent (Hartford).*
- *Fifty-seven percent of the weighted students are in the state's 17 poorest towns (The state's five largest cities contain 48 percent of the state's total weighted students).*
- *Changing the weights has a large impact on formula aid (Doubling all the weights increased formula aid in 2002 by $188.8 million, while eliminating the weights reduces formula aid by $188.2 million).*
- *There is no statistical evidence supporting the size of the current weights for poverty, performance, or English proficiency used in the ECS formula.*

The committee believes the weights assigned to various classes of students should reflect the actual cost differences associated with educating such children. Therefore, the committee recommends the following.

The educational cost commission established to set and systematically update the foundation level should also set and systematically update the weights assigned to students exhibiting characteristics of poverty, remedial-level

performance on standardized proficiency tests, limited English proficiency, and any other characteristics specifically designed by state statute.

The weights should reflect the amount of money necessary to provide an adequate education for the average student in the classification being weighted.

In developing the weights the commission shall contract with the Connecticut Center for Economic Analysis at the University of Connecticut or a similar entity to provide technical support and services.

The commission's initial weights shall be reported to the governor and General Assembly on January 1, 2003, and every four years thereafter.

The governor and General Assembly shall in all actions relevant to state financing of local education follow the weights set by the commission.

Base aid ratio

Formula for Calculating a Town's Base Aid

Base aid = Foundation X Need Students X Base Aid Ratio

The base aid ratio represents the portion of the minimum amount of money necessary to provide an adequate education for an average student that the state would support in the absence of special adjustments. Its purpose is to assure a town's ability to pay is a significant factor in determining the amount of state aid a town receives.

In developing a town's aid ratio its ECS wealth is divided by the State Guaranteed Wealth Level (SGWL), which is 1.55 times the median ECS wealth level for all the towns. The result obtained from this procedure is subtracted from one and is known as the base aid ratio.

To assure all towns are eligible for some amount of base aid the General Assembly set a minimum base aid ratio of .06. The ECS equation for the base aid ratio is shown below.

Formula for Calculating the Base Aid Ratio

$$\text{Base Aid Ratio} = \text{Greater of } .06 \textbf{ or } 1 - \frac{\text{Town Wealth}}{\text{SGWL}}$$

The methods used to calculate a town's wealth and define the SGWL are the result of many policy choices made in creating or amending the state's ECS formula. Analyses of the impact of the SGWL and key alternatives for measuring town wealth are presented below.

State Guaranteed Wealth Level. The SGWL is a key factor in determining how much local tax effort is required to meet the minimum amount of money necessary to provide an adequate education. It is the wealth level below which the state will pay a town a portion of the funds necessary to provide an adequate education and above which towns are deemed able to pay all of their educational costs.

The original SGWL was twice the median town's wealth. Over time the level has been lowered four times and raised once. It currently stands at 1.55 times the median wealth. In the opinion of the program review committee the changes have been used by the state to control its funding obligations to towns.

To demonstrate the impact of changes in the SGWL on ECS aid committee staff analyzed the outcome of increasing it to the original level or dropping it to the median level. The results are shown in the Table III-3. The table illustrates that decreasing the guaranteed wealth level decreases state aid and increasing the level increases state aid to towns.

Table III-3. Impact of Changes in the State Guaranteed Wealth Level

	Current SGWL Factor = 1.55	*Increase SGWL to Factor = 2.00*	*Decrease SGWL to Factor = 1.00*
Formula aid	$1,506,016,589	$1,818,304,280	$1,022,074,762
Entitlement	$1,458,693,614	$1,484,092,753	$1,440,872,209

- Lowering the factor to 1.00 reduces formula aid statewide by $483 million (32.1 percent) and total entitlement aid by $17.8 million (1.2 percent).
- Increasing the statutory wealth factor from 1.55 to 2.00 increases the formula aid in the aggregate by over $312 million (20.7 percent) and entitlement aid by more than $25 million (1.7 percent).

Town Wealth. The Educational Cost Sharing grant formula uses a multi-step process to calculate town wealth. The formula incorporates two forms of wealth:

- property wealth; and
- income wealth.

Property wealth is included because it is the base upon which local taxes are levied to support education. The inclusion of income wealth is related to its role as a measure of the capacity of a town's residents to pay taxes.

Under the ECS formula each town's property wealth is modified based on the ratio of the assessed valuation of real property to the fair market value of such property as determined by actual sales. This adjusted property wealth is referred to as the Equalized Net Grand List (ENGL).

An average of the three most recent years for which ENGL data are available is calculated for each town (AENGL). Property wealth, as defined in the ECS formula, is computed by taking the average of a town's AENGL per need student and AENGL per capita. The calculation is expressed as follows:

$$\text{Property Wealth} = \frac{\frac{\text{AENGL}}{\text{Need Students}} + \frac{\text{AENGL}}{\text{Population}}}{2}$$

In terms of income wealth the ECS formula uses two measures, per capita income (PCI) and median household income (MHI). Income wealth is calculated as the average of a town's PCI divided by the PCI of the town with the highest PCI, and a town's MHI divided the MHI of the town with the highest MHI. The result is known as a town's income adjustment factor and is expressed as:

$$\text{Income Adjustment Factor} = \frac{\frac{\text{PCI}}{\text{Highest PCI}} + \frac{\text{AENGL}}{\text{Highest MHI}}}{2}$$

The two wealth concepts are combined in the manner shown below to calculate a single ECS wealth factor for each town.

$$\text{Town Wealth} = \frac{\underbrace{\frac{\text{AENGL}}{\text{Need Students}} + \frac{\text{AENGL}}{\text{Population}}}_{\textit{(Property Wealth)}}}{2} * \frac{\underbrace{\frac{\text{PCI}}{\text{Highest PCI}} + \frac{\text{MHI}}{\text{Highest MHI}}}_{\textit{(Income Wealth)}}}{2}$$

Alternatives for calculating wealth can be found in the records of the Educational Equity Study Committee, which in 1987 did the initial work on developing Connecticut's cost sharing formula. Among the many methods for computing town wealth evaluated by the study commission, the program review committee found four of particular interest. The four represent fundamental issues related to defining town wealth. These include:

- Defining town wealth solely in terms of property wealth and not employing an income adjustment factor;
- Defining town wealth by adjusting for resident's capacity to pay only the residential portion of the ENGL;
- Defining income wealth as either the PCI or MHI -- but not both -- in developing an income adjustment for property wealth; and
- Defining town wealth only in terms the income of its residents.

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The analysis of town wealth factors relies on two indicators -- base aid ratio and base aid share -- to measure the effect on towns of changes in definition of wealth. The aid ratio provides an unfiltered measure of changes in the percentage of the foundation cost per pupil the state would pay to a town in the absence of intervening variables such as supplemental aid, regional bonus, density supplement, and other special adjustments. From these data the types of towns most affected and the direction of the effect can be determined. The base aid share provides a means of measuring the relative portion of the base aid directed at a town or group of towns under a specific definition of wealth, regardless of any changes in the amount of base aid available. The share is important since it is independent of changes caused by movement of the base aid level, and therefore, allows the relative effect of changes in measuring town wealth to be analyzed.

Defining town wealth solely in terms of property wealth. Under the current ECS formula a town's wealth is calculated by adjusting its property wealth based on resident's income. The intent is to use an income adjustment factor (IAF) to modify a town's property wealth, such that the lower the income the greater the reduction in property values and the greater the amount of state aid the town would receive. The rationale for the adjustment is based on the belief income is a good measure of the capacity of a town's residents to pay property taxes.

Committee staff analyzed this approach to defining town wealth using 2002 data. Holding all other factors in the ECS formula constant, eliminating the income adjustment factor for the 2002 fiscal year would have decreased the total amount of base aid called for by the formula the from $1.5 to $1.43 billion. On an individual town basis the changes in base aid would have ranged from a decrease of nearly $20 million to an increase of almost $8 million.

Table III-4 categorizes towns by deciles based on ENGL per student. The table shows by deciles the number of towns benefited and harmed by using income to adjust property wealth.

Table III-4. Change In The Base Aid Ratio Without Using an Income Adjustment Factor

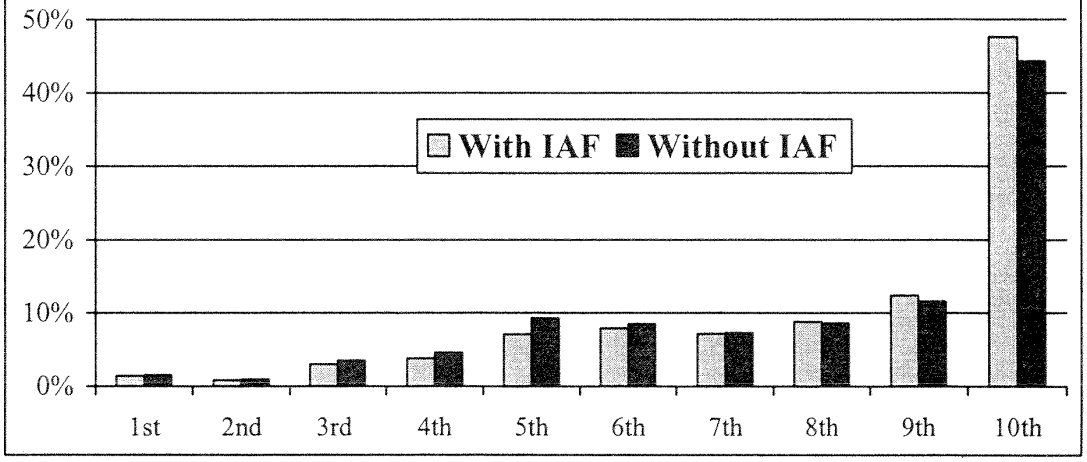
Deciles Wealthiest (1) Poorest (10)	*# Towns ratio increasing*	*# Towns ratio decreasing*	*# Towns no ratio change*
1	0	0	16
2	0	1	16
3	9	5	3
4	10	7	0
5	11	6	0
6	11	6	0
7	7	10	0
8	4	13	0
9	2	15	0
10	0	17	0
Total	54	80	35

- Using only property to define town wealth changes the base aid ratio of 134 towns -- 54 increased and 80 decreased.
- Using only property to define town wealth negatively affects the state's poorest towns.
- Using only property to define town wealth has almost no impact on the wealthiest towns.
- Using only property to define town wealth has a mixed impact on towns in the middle deciles (52 increase, 47 decrease).

Figure III-1 illustrates the distribution of base aid share among the deciles with and without using the income adjustment factor.

Figure III-1. Base Aid Share by Town Wealth Deciles With And Without the Income Adjustment Factor

(1st=Wealthiest 10th=Poorest)



- If property wealth was the sole means of measuring town wealth, the two poorest deciles would continue to receive more than 50 percent of total base aid.

- If property wealth was the sole means of measuring town wealth, the base aid share of the three lowest deciles would be reduced modestly (about 4.4 percent of base aid share), with the proceeds spread among the other seven deciles.

Table III-4 and Figure III-1 demonstrate the income adjustment of property wealth helps direct state aid toward the poorer towns. This is evident by the fact that when the income adjustment factor is not used to modify property wealth, 90 percent of the towns in the three poorest deciles experience a decline in their base aid ratios and their share of formula aide decreases from 69 to 65 percent. If offsetting adjustments such as changes in the foundation or SGWL were not made the lowest three deciles would experience a net base aid decrease of nearly $110 million.

Adjusting only the residential property component of each town's ENGL. The concept of limiting the adjustment of property wealth to residential property was considered by the legislature in 1986 and later by the Educational Equity Study Committee. The basis for this method is the idea individuals pay residential property taxes out of personal income, while taxes on other properties are paid out of business income. The assumption is residents of towns with a high percentage of residential property have a heavier tax burden and this should be addressed in the ECS formula.

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Table III-5. Effect on the Base Aid Ratio of Adjusting only Residential Property in Calculating Town Wealth

	Base Aid Ratio		
Deciles	*# Towns increasing*	*# Towns decreasing*	*# Towns no change*
1	0	0	16
2	1	1	15
3	3	6	8
4	8	9	0
5	11	6	0
6	10	7	0
7	8	9	0
8	7	10	0
9	7	10	0
10	2	15	0
Total	57	73	39

Committee staff analyzed this concept using 2002 data and applying the current income adjustment factor only to the residential portion of each town's property wealth. In absence of any changes in other parts of the ECS formula, adjusting only residential property would have reduced base aid from $1.5 to $1.34 billion. On an individual town basis the changes in base aid would have ranged from a decrease of nearly $34 million to and an increase $5 million.

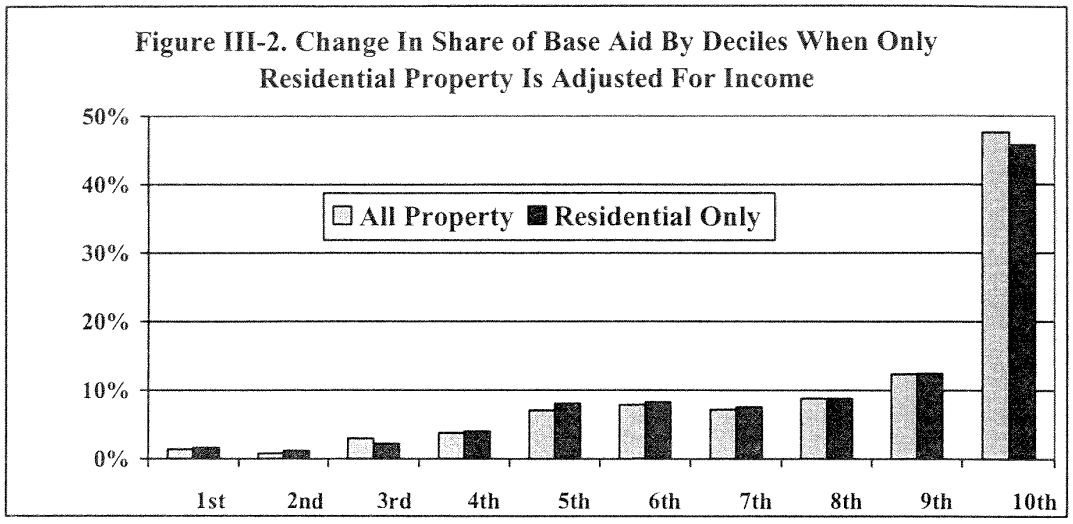
The deciles depicted in Table III-5 are based on ENGL per student. The 17 poorest towns in terms of their ENGL per student are grouped into the 10th decile and the wealthiest 16 towns are grouped into the first decile.

If only residential property was adjusted for income:

- 130 towns would have their base aid ratios changed -- 57 increased and 73 decreased,
- The residential adjustment creates winners and losers among the towns within all but the wealthiest decile.
- The greater the percent of residential property the more likely a town is to benefit from adjusting only the residential portion of the ENGL.
- Shifts in base aid among towns would be substantial. Hartford would lose $34 million, New Haven $18 million, and Bridgeport $15 million. At the other end of the scale, Simsbury and Newington would each gain $5.2 million and Newtown would add $4.7 million.

Figure III-2 below depicts the following observations.

- If only residential property is adjusted the share of net base aid would be increased in all deciles except the 3rd, 8th, and 10th.
- The residential property adjustment would have no impact on the share of net base aid for the 8th decile and would reduce net base aid for the 3rd and 10th deciles.



Measuring income. Associated with the decision to adjust property wealth based on income is a policy choice concerning how to measure income. The two alternatives most often considered are per capita income and median household income. Committee staff analyzed the effects of having either PCI or MHI as the only measure of income used in calculating the income adjustment factor. The results are shown in Table III-6 below.

Table III-6. Effect On Base Aid of Calculating Town Wealth Using Either PCI or MHI As The Income Adjustment Factor

	Base Aid Ratio (PCI)			Base Aid Ratio (MHI)		
Deciles	*# Towns increasing*	*# Towns decreasing*	*# Towns no change*	*# Towns increasing*	*# Towns decreasing*	*# Towns no change*
1	0	0	16	0	0	16
2	1	0	16	3	1	13
3	1	6	10	10	0	7
4	3	12	2	12	3	2
5	8	9	0	9	8	0
6	8	9	0	9	8	0
7	9	8	0	8	9	0
8	7	10	0	10	7	0
9	8	9	0	10	7	0
10	5	12	0	12	5	0
Total	50	75	44	83	48	39

- Using either PCI or MHI as a measure of income causes about three-quarters of the towns' base aid ratios to change.
- Within most of the wealth groupings the PCI and MHI have opposite effects -- where one income measure tends to increase the base aid ratios of a majority

of the towns within one of the deciles, the other tends to decrease about the same number.

- There is little change in the aid ratios of towns in the wealthier deciles, this is primarily attributed to the statutorily mandated .06 minimum base aid ratio.

Substituting the newly calculated base aid ratios into the 2002 ECS formula and holding all other factors constant produced the following results.

- The total amount of base aid increased by $43 million if MHI was the sole measure of income and decreased by $41 million if only PCI was used.
- On an individual town basis, measuring income by MHI increased the base aid for 83 towns compared to an increase of 50 towns when PCI was used.
- 48 towns had their base aid decreased when MHI was employed as the sole measure of income compared to 75 when PCI was used.
- In every instance a town whose base aid was increased by one measure experienced either a decrease or no change when the other income measure was used.

The decile containing the 17 poorest towns is the most volatile in terms of change in the amount of base aid under the two income measures. It had the biggest increase among all deciles ($9.3 million) when MHI was used as the measure of income and the biggest decrease ($11 million) when PCI was used.

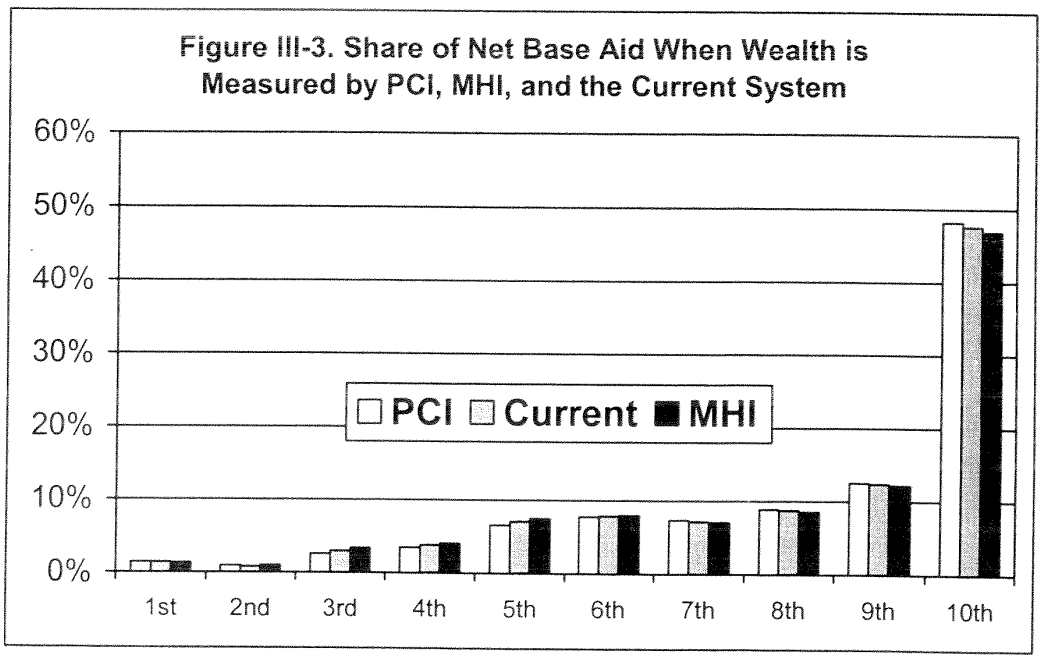


Figure III-3, depicts the share of net base aid across all deciles when income is measured by PCI, MHI, or the arithmetic average of the two.

- Most of the base aid is directed at towns in the poorer deciles regardless of the income measure employed to calculate the income adjustment factor.
- PCI and MHI have the opposite effect on the share of net base aid computed for each of the deciles.
- Using PCI as the sole measure of wealth tends to raise the base aid share of the lower deciles slightly and decrease the share of the middle deciles. The reverse occurs when MHI is used.
- Using an average of MHI and PCI to measure income has a moderating effect

It is important to note, while employing PCI increases the share of net base aid going to towns in the poorest deciles, the amount of aid is decreased compared to the current amount because, the base aid total calculated with PCI is much smaller. Once again, the opposite holds true when MHI is used as the sole measure of income.

The analysis demonstrates the sensitivity of base aid to changes in how income is measured. It shows PCI and MHI act as opposite forces on towns in terms of their affect on base aid. Finally, the analysis indicates averaging of the two income measures moderates the opposite forces found in PCI and MHI.

Defining town wealth solely in terms of income. This section examines the effect of eliminating property wealth and using the income of a town's residents as the sole measure of town wealth. Specifically, under this approach town wealth would be defined as the average of PCI and MHI. The rationale for this approach is based on the view that income wealth is a better measure than property wealth of a town's residents' capacity to pay for education.

As with the previous analyses committee staff used 2002 data to assess the income-only approach and found:

- 159 towns would have experienced a change in their base aid ratios, with 74 increasing and 85 decreasing;
- if none of the other formula factors were changed, net base aid would have decreased by $164.5 million; and
- on an individual town basis changes in base aid would have ranged from a decrease of $41 million to an $18 million increase.

Table III-7 depicts the effect on each of the deciles of measuring town wealth only in terms of income.

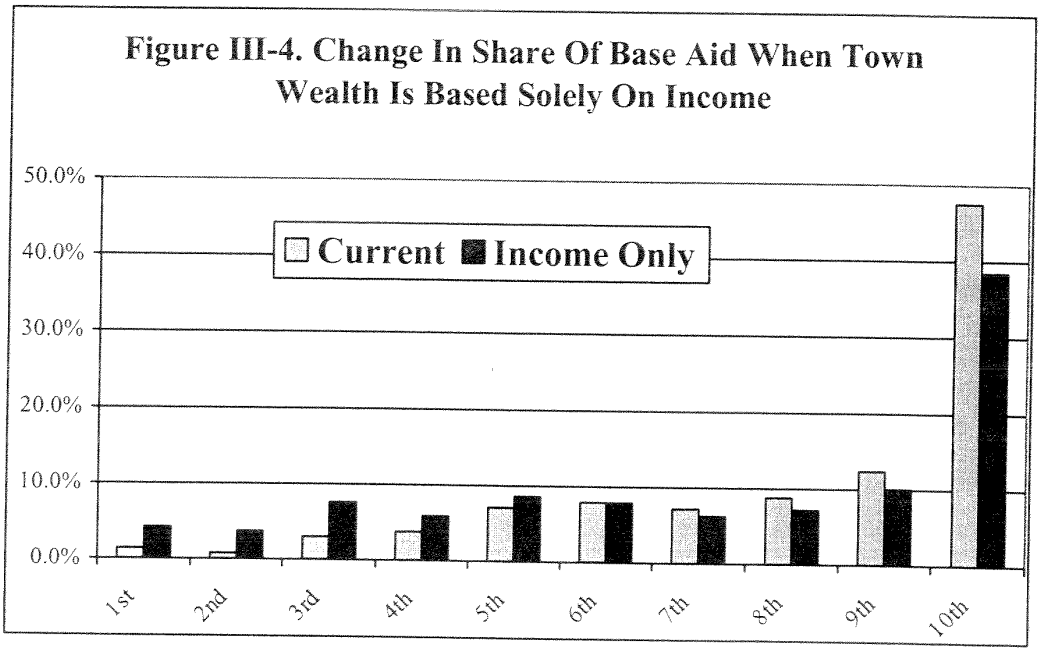
Table III-7. Effect on the Base Aid Ratio of Measuring Wealth only by Income			
	Base Aid Ratio		
Deciles	*# Towns increasing*	*# Towns decreasing*	*# Towns no change*
1	10	0	6
2	13	0	4
3	17	0	0
4	17	0	0
5	15	2	0
6	2	15	0
7	0	17	0
8	0	17	0
9	0	17	0
10	0	17	0
Total	74	85	10

- When wealth is measured only in terms of income the base aid ratios of all of the towns in the poorest four deciles decrease.
- When wealth is measured only in terms of income the base ratios of nearly all of the towns in the top four deciles either increased or remained constant at the .06 minimum level set in statute.

Figure III-4 depicts for each of the deciles their share of base aid. It shows:

- the top five deciles experience a net gain in their share of base aid, while the bottom four deciles suffer net loses;
- a shift in base aid share away from the poorer towns toward the wealthier towns; and
- despite a shift of base aid away from the lower deciles nearly half the base aid would be distributed among the 34 towns in the two lowest deciles.

Figure III-4. Change In Share Of Base Aid When Town Wealth Is Based Solely On Income



Compared to the measurement of wealth currently used in the ECS formula, the analysis determined eliminating property wealth and relying solely on income wealth would affect more towns than any of the other alternatives reviewed. Also, it the shifted a greater portion of base aid from the poorer to wealthier deciles than any of the other alternatives examined. In the absence of any changes to other parts of the ECS formula, the magnitude of the loss to the poorer towns is large, totaling $250 million among the towns in the lowest two deciles.

Summary of committee findings

The five alternative methods of measuring town wealth analyzed by the committee produced common and unique effects. The key findings in both areas are summarized below.

- *How town wealth is measured is a policy choice having a significant impact on the amount of state educational aid a town receives.*
- *Current policy directs nearly 60 percent of ECS base aid to the 34 poorest towns (bottom 20 percent) and slightly more than 2 percent to the 33 wealthiest towns (top 20 percent).*
- *The five alternative methods of measuring town wealth examined by committee staff caused between 125 and 159 towns to experience a change in base aid.*
- *Of the five alternative methods of measuring town wealth examined by committee staff, only median household income increased the amount of base aid called for under the ECS formula. (MHI resulted in an increase of $41 million, while the decrease called for by the other four ranged was from -$165 to -$43 million.)*
- *All five alternative methods of measuring town wealth examined by committee staff except per capita income caused a shift of base aid share away from the 34 poorest towns (bottom 20 percent) toward the 33 wealthiest towns (top 20 percent).*
- *In most instances, whether a change in how wealth is measured would cause a town's base aid to increase or decrease defied a systematic explanation.*

Recommendation

In making its recommendation the committee took into account a number of factors. The primary criterion was whether the result of a change would be consistent with applicable court decisions. A second consideration was whether the outcome of a change would have a systematic effect such that seemingly similar towns would be treated in a similar manner, and the result could be explained in simple terms. A factor of lesser importance was the number of towns affected and the magnitude of the impact.

A factor not considered by the committee was the effect of a change on the level of base aid. The reason for this decision was the ease with which the base aid amount could be changed by altering the SGWL of foundation. This is the reason the focus of the analysis was on changes in base aid share and not the amount.

Using this framework, committee staff assessed each of the alternatives for measuring town wealth. In the judgment of the staff none of the alternatives completely satisfied all of the criteria. Most of the alternatives retargeted aid in a manner not consistent with the thrust of court directives. Only one produced results that were systematic, but it was the alternative most at odds with what the court has said. Based on its analysis, the committee recommends:

the current method of measuring town wealth should be continued.

Supplemental Aid

In 1995, P.A. 95-226 revised the ECS grant formula. Included among its many adjustments was a provision for supplemental aid. The purpose of supplemental aid is to provide additional financial support to towns based on a proportion of children:

- whose families receive Temporary Family Assistance (TFA); and
- who score below the remedial level on the statewide mastery tests.

As shown in the figure below, determination of the supplemental aid component of the ECS formula parallels the calculation of base aid component with its use of the foundation level, students, and aid ratio as formula factors.

Formula for Calculating a Town's Supplemental Aid

Supplemental Aid	=	Supplemental Students	X	Supplemental Aid Ratio	X	Foundation

Supplemental students are the number of students added to the town's resident student population as a result of the weights set for students with the special needs associated with poverty and remedial academic help (Limited English Proficiency students are not counted).

As shown below, a town's supplemental aid ratio is .04 times the ratio of its supplemental aid factor -- the average of the percentage of TFA children residing in the town and the percentage of students performing poorly on the mastery test -- divided by the highest town's supplemental aid factor. However, any town whose proportion of TFA students exceeds 25 percent automatically receives the maximum supplemental aid ratio of 4 percent.

Formula for Calculating the Supplemental Aid Ratio

$$\text{Supplemental Aid Ratio} = \frac{\text{Supplemental Aid Factor}}{\text{Highest Town's Supplemental Aid Factor}} \times 0.04$$

Committee staff using 2002 ECS data undertook an analysis of the supplemental aid component of the ECS formula. Key findings of the analysis are as follows.

- *Supplemental aid adds only $6 million to the ECS formula aid total (about 0.4 percent).*
- *On a town-by-town basis, supplemental aid ranges from a low of $20 to a high of $1.5 million with the median value is $1,220.*
- *Ninety-three percent of the supplemental aid is distributed to 10 percent of the towns.*
- *The five largest cities accounted for 72 percent of all supplemental aid.*
- *The number of students added to a town's residential student count based on the weighted need criteria is the variable most highly correlated with supplemental aid (.98).*

As the above findings indicate the supplemental aid component has a relatively small impact in terms of the amount of money involved and the number of towns getting more than a token share of the total. In general, the greater the increase in a town's resident student count based on the weights assigned to students meeting special poverty and academic achievement criteria, the greater the amount supplemental aid targeted to a town.

The committee believes the use of need students in the regular ECS formula is designed to provide extra compensation to towns by counting for students with special needs as one plus the assigned weight. As discussed in making the previous recommendation, the adequacy of this procedure is a function of the accuracy of the weights in reflecting the true cost of educating students with the special needs associated with poverty and low achievement.

It seems to the committee once weights for special needs have been established in accordance with the recommendation in a previous section, the continuation of this supplemental aid component would be redundant. It would provide towns a second opportunity to be compensated for the same problem. Therefore, the committee recommends:

the supplemental aid component of the ECS formula shall be terminated at the end of FY 03 in conjunction with the adoption of a set of weights for counting students with special needs recommended by the education cost committee.

Regional Bonus

Since it was established in 1988, the ECS formula included a bonus payment for member towns of regional school districts. The total bonus amount a town receives depends on:

- the number of students enrolled in the regional district; and
- the number of grades kindergarten through grade 12 in regional district.

Towns that are members of K-12 regional districts receive $100 per student enrolled. Towns that are members of secondary regional school districts are paid $100 per enrolled student times the number of grades in the district divided by 13. Towns with elementary districts that tuition students to designated secondary schools are not eligible for the bonus.

Analysis of the regional bonus data found the following.

- *The regional bonus adds just over $2 million to ECS formula aid, the amount provided to towns before the cap and other special adjustments are applied.*
- *Forty-seven towns were entitled to a regional bonus in amounts ranging from almost $1,700 to more than $318,000 for FY 02.*
- *The exact contribution of a regional bonus to a town's final ECS grant is difficult to determine, given the effect of special minimum and maximum aid provisions on final payments.*

As the above findings indicate the regional bonus, like the supplemental aid component, has a small impact in terms of the amount of money involved and the number of towns getting aid. The fact it is targeted to a select number of towns to meet a specific purpose means it has a distorting effect within the ECS formula. If the bonus is needed it would be better to provide the funds as part of a categorical grant program aimed at helping consolidated school districts. Therefore, the committee recommends:

the regional bonus component of the ECS grant program should be terminated at the end of FY 03 and funding to address specific needs of consolidated school districts should thereafter be part of a categorical grant program.

Special Adjustments

The ECS grant program has been adjusted to establish minimum and maximum aid amounts regardless of funding levels towns should receive under the basic formula. A cap on ECS grant increases was initiated in 1992 to reduce state spending. To ensure towns do not experience a substantial drop in state education aid from one year to the next, ECS stoploss and hold harmless provisions have been adopted. Several minimum aid measures that apply only to priority and transitional school districts have also been enacted. For FY 02, the ECS grants of only two towns were not affected by special adjustments.

ECS grant cap. The current formula for determining a town's maximum grant under the provisions of the cap is illustrated in the figure below. The cap varies with a town's wealth up to a maximum of 6 percent over the ESC payment -- excluding any density supplement -- received for the prior year.

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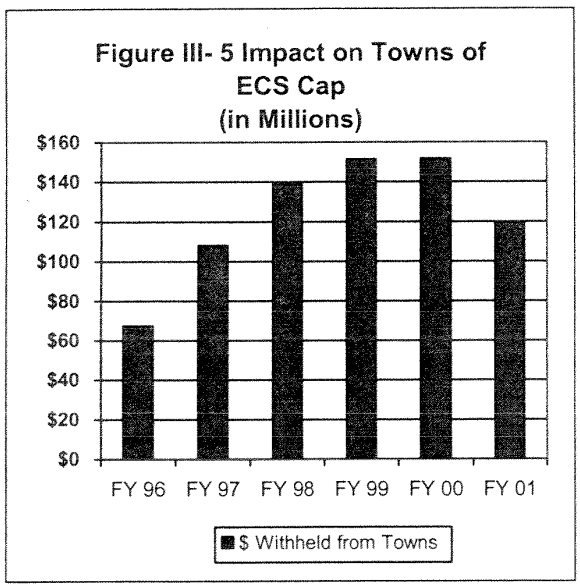
Calculation of ECS Cap						
Grant cap percentage	=	the lower of 6%	*or*	6 %	X	$\frac{153^{rd} \text{ rank town wealth}}{\text{town wealth}}$
Maximum ECS grant	=	base revenue		X	(100% + the town's grant cap %)	

In FY 02 supplemental funding was provided to towns affected by the cap. Capped towns were given a proportional share of $25 million supplement aid in the first year of the budget biennium and $50 million in the second (FY 03), with each town's share based on the difference between its "target aid" (i.e., its ECS formula aid amount) and its capped grant amount. In accordance with P.A. 99-217, the cap is scheduled to terminate at the conclusion the FY 04 year.

Committee staff analyzed the cap's impact. The findings are illustrated in Figure III-5 and summarized below.



- *Between FY 96 and FY 01 the money withheld from towns based on the imposition of the cap ranged from about $67 million to almost $152 million per year.*
- *Between FY 96 and FY 01, only 21 towns were not affected by the cap, many were capped for multiple years, and 35 were capped every year.*
- *In FY 02, 60 percent (101) of all towns were subject to the cap.*
- *Taking into account a $25 million grant cap supplement made available to capped towns in FY 02, the ECS cap is estimated to save the state just over $90 million for FY 02.*
- *The estimated cap supplement received by the 101 capped towns for FY 02 ranges from $2,719 to $1,692,139. In about a dozen cases, a town's cap supplement is greater than the ECS grant payment it is entitled to under the capped formula.*

Based on the staff review the committee believes the cap distorts the intent of the ECS formula. It functions as a secondary distribution system aimed at constraining the amount of state educational funds distributed. Given the objective of the ECS formula is to have an educational financing system that among other things rationally distributes state aid to local school districts based on their need and ability to pay, committee recommends:

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the ECS cap should be terminated as scheduled at the close of the fiscal year ending June 30, 2003.

In a sense this process already began with the $25 million distributed to the capped towns in FY 02 and the $50 million budgeted for FY 03. At that point the cap distortion should be down to around $40 million.

Stoploss/ Hold Harmless/Minimum Increase. For nearly every year since it began, the ECS formula contained either some form of stoploss or hold harmless stipulation. Hold harmless is a provision under which no town would suffer an ECS aid decrease (or at times a minimum increase), and a stoploss provision establishes a maximum amount a town's ECS grant could decrease.

Legislation under which the ECS currently operates includes the following special adjustments which serve to increase the final amount to which towns would otherwise be entitled.

- *Minimum base aid.* Each town's state aid percentage (or base aid ratio) is calculated by determining the relationship between each individual town's wealth and the State Guaranteed Wealth Level as described above. Because many towns in Connecticut have high property values, they would be eligible for little state aid (or theoretically receive "negative aid") without the statutory prohibition against the base aid ratio from falling below 6 percent. This is in effect a guarantee that all towns are eligible to receive a minimum amount of educational base aid from the state.
- *Minimum grant increase and hold harmless.* In FY 02, each town was eligible for a minimum grant increase of 1.68 percent over its FY 01 grant. For FY 01, no town could receive a grant less than the previous year's grant. This provision is still in effect.
- *Alternative minimums for priority and transitional districts.* In addition to the hold harmless and minimum increase provisions to which all towns are eligible, priority school districts are guaranteed to receive no less than 70 percent of their current year formula aid; transitional districts must receive no less than 40 percent of their current year formula aid. Since 1998, priority districts also must receive aid at least the same per student rate as they did in the prior year. Thus, there are three alternative minimum aid provisions in effect for priority districts and two for transitional districts.
- *Density adjustment hold harmless.* The formula includes an enhancement to assist towns with high population density. The density supplement contains a hold harmless provision that provides no town may receive a density supplement less than the prior year's supplement.

The committee reviewed the staff's analysis of the impact of these special provisions. The committee's findings are summarized below.

- *The minimum base aid ratio of 6 percent affects 44 towns and costs the state an estimated $28 million.*
- *Aside from the base aid ratio and before the FY 02 minimum increase is applied, hold harmless provisions assisted 58 towns in obtaining additional funding. This amounted to nearly $32 million, ranging from a low of $494 to $3.8 million per town.*
- *The percentage difference between what a town was entitled to and what it received due to the hold harmless provisions (other than the base aid ratio), ranged from less than 1 percent to over 200 percent. Twenty-eight towns received a percentage difference that was in the double digits or more*
- *Sixty-four towns benefited from the 1.68 percent minimum increase, receiving in the aggregate nearly $6 million more than last year. The total amount of this increase for each town ranges from approximately $2,200 to $420,000. All 64 towns received more than the ECS formula called for.*
- *At present, 14 towns have priority district status and another 13 have transitional school status. None of the priority districts and only one transitional district benefited from the special 70 percent/40 percent minimum aid provision for FY 02. This amounted to about a $580,000 increase.*
- *The alternative minimum increase based on prior year per student funding applied in the cases of two priority districts, increasing their ECS aid in total by nearly $39,000.*

Based on the above findings, the committee recommends:

All but the minimum base aid ratio hold harmless provisions shall be terminated by the end of June 30, 2002, except for the fiscal year ending June 30, 2003, no town shall receive less than its total ECS grant for the fiscal year ending June 30, 2002. For purposes of calculating the ECS grant, fiscal year ending June 30, 2003, shall be considered the base year.

The committee believes these special provisions undercut the intent of the ECS formula. These provisions make the formula more complex for reasons that are not legitimately related to demonstrated educational needs. The "pure" ECS formula is fairly complex and adding such provisions raise suspicion and jeopardize the credibility of the formula.

The above recommendation establishes a base year in 2003 to assist towns in the transition. Beginning FY 03, towns would receive the greater of their ECS grant amount for fiscal year ending June 30, 2002, or their calculated ECS amount for FY 03. From that point forward, no town would receive an ECS grant that is less than its FY 03 amount.

Some have argued hold harmless provisions prevent sudden budget hardships for towns. These adjustments assist in assuring greater and consistent participation by the state. Unfortunately, hold harmless safeguards distort the purpose of an equalizing formula based on need. One reason why such provisions are supported is because the factors in the formula have

been restricted -- providing another reason for reviewing the adequacy of the formula factors as recommended above.

At a time in which many towns are helped by these special provisions, others aid increases are capped. The committee believes public policy is better served by systematically reviewing the formula's ability to provide an adequate education, not just an equitable distribution. At the very least, there should be a recognition that granting some towns over $3.00 for every $1.00 of their entitlement, while giving capped towns on average 0.64 cents for every $1.00 to which they are entitled raises issues of fairness.

In addition, transitional and priority school districts already have categorical grants targeted to their special needs. The specific alternative minimum aid provisions for these special districts do not add up to much money. If there is a desire to direct more money to these towns, it should be done through categorical grants and not cloaked within the complexity of the equalizing formula.

The committee believes in the preservation of the minimum base aid ratio for two reasons. First, if the state is to fully recognize that the education of each student is ultimately its responsibility, all towns should receive some amount of aid from the state. Secondly, while many interest groups and individuals express dissatisfaction with the amount of state aid distributed for education, virtually eliminating that aid to 44 towns severely jeopardizes the political acceptability of and broad-based support for the formula.

Density Supplement

In 1995, the ECS formula was amended to include an enhancement to assist towns with high population density. The underlying rationale is these towns have a higher demand for a wider variety of municipal services than do low density towns. A town is eligible for a density supplement if its population density (i.e. population divided by square miles) is greater than the statewide average.

Calculation of the density supplemental is similar the calculation of the ECS's base aid and supplemental aid components. All three use a student count, the state foundation, and an aid ratio. Calculation of the different aid ratios is the biggest variation among the three.

The figure below shows the density supplement is calculated by multiplying the town's density aid ratio (DAR) by the foundation level and the town's total need students.

Formula for Calculating the Density Aid Supplement

Density Supplement = Greater of Prior Years Supplement or [Need Students X Density Aid Ratio X Foundation]

The density aid ratio is the product of the density of a town divided by the density of the state's most densely populated town and the statutory density aid factor, currently set at

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0.006273. The density supplement is not subject to the ECS grant cap and no town can receive a density supplement less than the prior year's supplement.

The key findings of the committee staff's analysis are listed below.

- *The density supplement adds about $5.5 million to the formula aid, which represents approximately 0.4 percent of total ECS funding.*
- *In FY 02, 46 towns are entitled to receive a density supplement and the amounts ranged from approximately $8,000 to just over $1 million.*
- *Twelve towns account for over 70 percent of the density supplement aid distributed.*

As the above findings indicate the density supplement, like the supplemental aid and regional bonus components of the ECS, has a small impact in the amount of money involved and the number of towns getting aid. The fact it targets aid specifically to densely populated towns rather to all towns results in the density component having a disequalizing effect within the ECS formula. If the bonus is needed, it would be more appropriate to provide the funds as part of a categorical grant program aimed at helping urban school districts. Therefore, the committee recommends:

the density supplement component of the ECS grant program should be terminated at the end of FY 03 and any funding to address specific needs of urbanized school districts should thereafter be part of a categorical grant program.

Distribution of Aid

There are four primary mechanisms used by the state to control its funding costs under the ECS grant program. The four are listed below.

- Foundation level
- State guaranteed wealth level
- Grant cap
- Hold harmless

The foundation and state guaranteed wealth level (SGWL) directly affect formula aid, which is the grant amount computed for towns under the ECS formula before most special adjustments are applied. Changes in either of these components impact all towns.

The grant cap and hold harmless provisions are imposed after a town's formula aid has been calculated. They affect entitlement aid, which is the grant payment a town actually receives after all adjustments have been made. Unlike the foundation and SGWL, the grant cap, and hold harmless provisions only impact towns meeting certain criteria.

The committee believes the principal objective of the state's actions with respect to three of the four factors has been to reduce the amount of aid the state would have to provide under the

ECS grant program. Although the need to do this reflects the reality of budget constraints, it is not without consequences.

In the case of the foundation the original procedure put in place to keep the foundation current was repealed in 1992. While the foundation has been updated on six occasions its present level of $5,891 is below the $7,349 that would be required if the original procedure were used. A foundation level of $7,349 would have added $372 million to the FY 02 formula aid total.

With respect to the SGWL, since inception of the ECS grant program the state lowered the guaranteed wealth level three times and raised it once. In 1990 it was reduced from 2.0 to 1.83. The following year it decreased to 1.67 and in 1993 dropped to 1.54. The only increase came in 1996 when raised to the current level of 1.55.

Each reduction in the SGWL decreases the amount of formula aid. As the committee analysis showed, if the SGWL remained at its original level of 2.0, formula aid would have been $1.8 billion in FY 02 instead of $1.5 billion.

A cap on ECS grant increases was instituted in 1992 to reduce state spending. The cap varies with a town's wealth up to a maximum of 6 percent over the ECS payment -- excluding any density supplement -- received the prior year. At present, 60 percent of all towns (101) are subject to maximum increase provisions. Savings, attributable to the cap in FY 02 equaled $90 million.

It should be noted, under current statutes the cap will be eliminated at the end of the FY 04. In a sense, it is being phased out with $25 million and $50 million pools created for distribution among capped towns in FY 02 and FY 03 respectively.

The hold-harmless provision provides no town can suffer an ECS aid decrease. The effect is to assure eligible towns receive more funds than the formula dictates. In FY 02 this added $32 million to the ECS grants not counting an additional $6 million for a provision guaranteeing each town received at least 1.68 percent more than the previous year.

Based on analysis the committee concludes:

- *frequent changes in the foundation and state guaranteed wealth level aimed at saving state funds has begun to undermine the state's credibility when it comes to funding local education;*
- *imposing caps on the amount of state educational aid a town can receive distorts the outcomes of the ECS formula and implies it is flawed; and*
- *imposing a floor (hold harmless) on the amount of state educational aid a town can receive distorts the outcomes of the ECS formula and implies it is flawed.*

Recommendation

The committee believes some type of budget constraint will almost always be needed. Indeed, if the cost commission created under previous recommendations proposes increases in the foundation level and weights for student needs, the amount of money called for by the ECS formula will almost certainly exceed the state's ability to pay. This will necessitate the need for some type of budget constraint.

However, the form such constraint takes must be perceived as fair and should not weaken the credibility of the ECS grant program. The committee concluded past actions with respect to the foundation, SGWL, and grant cap, if continued, could jeopardize these principles. Therefore, the program review committee recommends:

> **for the fiscal year ending June 30, 2004, and each fiscal year thereafter, each town shall receive the same percentage of the funds budgeted for ECS grant program [***in excess of the amount budgeted for the fiscal year ending June 30, 2003***] as the town's percentage share of the total base aid calculated under the provisions of CGS Section 10-262h (6), except in no instance shall a town receive less in ECS grant aid than the amount of its ECS grant for the fiscal year ending June 30, 2003 in any succeeding year.**

The two figures below demonstrate the difference between the current procedure for calculating a town's ECS grant and the proposed method. The current procedure as shown in the first figure has three main components (i.e., base aid, supplement aid, regional bonus) plus some special adjustments (e.g., grant cap, hold harmless, etc.) and a density supplement.

Current Formula for Calculating a Town's Educational Cost Sharing Grant

Town's ECS Grant = [Base Aid + Supplemental Aid + Regional Bonus] * + Density Supplement

* Subject to Special Adjustments

The committee recommendations presented in this chapter alter the ECS formula. In general, those proposals call for:

- elimination of the supplemental aid component immediately after new weights for need students have been developed and implemented;
- elimination of the region bonus and density supplement; and
- phasing out of all special adjustment except the 6 percent minimum base aid.

The recommendation proposes a town receive the same percentage of the total ECS grant aid budgeted by the state as the town's percentage of total base aid (i.e., Foundation X Need students X Base aid ratio) computed for all towns under the base aid formula. This formula is pictured below.

Proposed Formula for Calculating a Town's Educational Cost Sharing Grant

$$\text{Town's ECS Grant} = \frac{\text{Town's Base Aid}}{\text{Sum of all Town's Base Aid}} \times \text{ECS Budgeted Amount}$$

Adoption of this recommendation removes the distortions in town grants caused by the grant cap and hold harmless provisions. In the opinion of committee staff it would assure state budget problems impacting education financing would be spread among all towns based on the assumption the ECS formula in its purest form is fair in addressing the educational financing needs of local school districts.

Though some might fear it, the procedure would not hide the financial obligation of the state to support local education. The formula aid data used to determine each town's pro rata share of the available state funds would indicate the level of funding dictated by the pure ECS formula. Deviations would be clearly seen as induced by budget constraints.

The analysis below provides a sense of how the ECS grant money would have been distributed if the recommendation had been in place and the budgeted ECS grant money had been equal to the actual amount distributed in FY 02. Table III-8 shows the impact on towns in each wealth decile.

Table III-8. Effect on the ECS Aid of Distributing Funds on a Pro Rata Share Basis

Deciles	*# Towns increasing*	*# Towns decreasing*
1	16	0
2	12	5
3	12	5
4	10	7
5	7	10
6	9	8
7	6	11
8	6	11
9	2	15
10	4	13
Total	84	85

- The overall number of towns with increasing and decreasing grants under a pro rata share system is about equal.
- A majority of towns in the wealthier deciles had their grants increased, while a majority of the towns in the poorer deciles had their grants decreased.
- Of the 84 towns whose grants increased, the median increase was $280,000 with a range from $6,200 to $5.3 million.

- The increase in funding among towns in the wealthier deciles is attributable to the elimination of the cap effect under the proportional distribution system proposed in the recommendation.
- Of the 85 towns whose grants decreased, the median decrease was $350,000 with a range from $4,700 to $7.9 million.
- The decrease in funding among towns in the poorer deciles can be attributed to the elimination of the hold-harmless provision.

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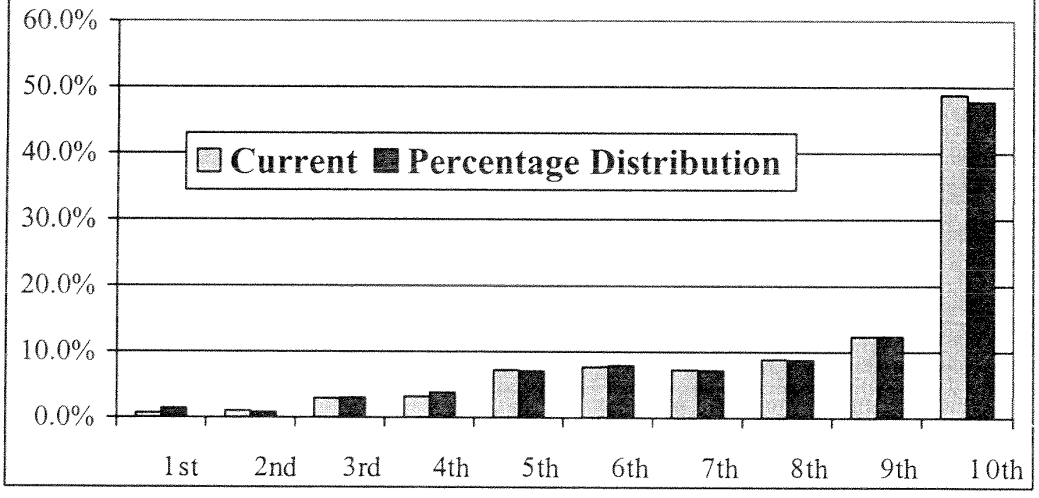
Figure III-6 shows the change in the share of ECS grant funds that would have occurred if the recommendation to distribute ECS aid based on a town's proportional share of formula aid had been in effect.

- Most deciles experience only slight changes in their share of ECS aid.
- The largest increase in share occurred among the towns in wealthiest decile, from 0.7 percent to 1.4 percent.
- The biggest drop occurred among the towns in the poorest decile, from a 48.8 percent share down to 47.8 percent.

The analysis demonstrates how the distortions in the current ECS system have affected towns. Their elimination could be painful particularly for the urban towns that will lose the hold harmless benefit. However, as noted in the recommendations dealing with the regional bonus and density supplement, if more needs to be done for specific types of towns then the categorical grant program is the mechanism that should be used.

Figure III-6. Change In Share by Deciles of ECS Grant Funds for FY02 if Recommendation in Effect.



The categorical grant program allows for the aid to be targeted directly to the towns with the specified need. It is far more efficient because money does not leak to towns not intended to receive the help. Further, it prevents distortions caused by using the ECS formula to target the needs of selected towns.

Public Access to the ECS Grant Calculation Procedure

The ECS formula will remain complicated even if the modifications recommended throughout this section by the committee to eliminate distortions and simplify the grant program

are adopted. Determining the impact of changes in one or more parts of the formula, due either to year-to-year changes in town characteristics or proposed program revisions, therefore, requires many computations and a number of analytical steps.

Each year, SDE makes available on its website a detailed guide to the ECS grant as well as the MER provision. The guide includes worksheets and supporting data to help local districts calculate their expected state equalization aid and minimum education spending level. However, this information can only be reviewed and, if desired, copied; it is not in an interactive format. Since it cannot be manipulated electronically, the data cannot be easily used to identify and compare the impact of formula changes either within or across districts.

The department does maintain the entire ECS formula in an electronic spreadsheet format for its own use. It is shared with the legislature's Office of Fiscal Analysis, which provided a copy to committee staff to use for this study. The spreadsheet proved a valuable tool for understanding and analyzing the formula. The committee believes giving policymakers and other interested parties the opportunity to better understand the ECS formula can result in greater support for and confidence in the grant program. The program review committee recommends

the state education department make an interactive ECS grant calculation spreadsheet available on its website beginning January 1, 2003.

Categorical Grants

In addition to the aid allocated to districts under the Educational Cost Sharing grant, the State Department of Education provides financial support for specific purposes through categorical grants. Categorical grant programs earmark funding for particular types of students or districts or special purposes and activities. The main reasons are to: remedy inequities; ensure equal opportunities; and support current legislative and executive priorities.

During FY 00, the education department administered 48 different categorical grant programs. The SDE grants vary in terms of:

- *size* -- from multimillion dollar programs to those involving under $100,000;
- *scope* -- from grants every town receives to those directed at a narrow range of districts;
- *administration* -- from simple pass-through methods to allocation by formula or competitive process; and
- *purpose* -- from adult education to youth service bureaus.

Most have been in place for a number of years although new grant programs are generally added, and existing ones discontinued, in each legislative session. A listing of the education department categorical grants active between FY 97 and FY 00 is contained in Appendix E.

Figure IV-1. SDE Categorical Grant Expenditures By Purpose: FY 00

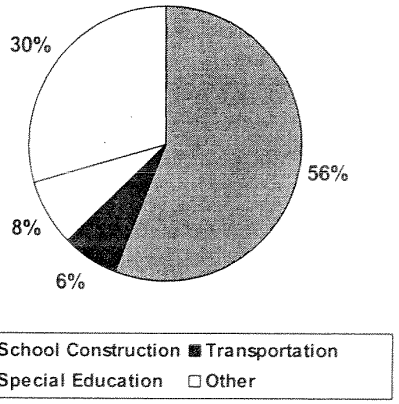


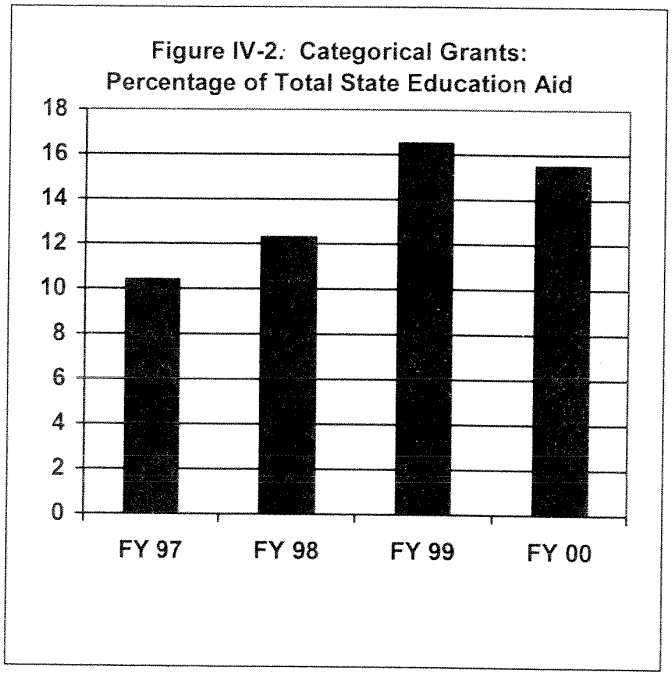
Figure IV-1 shows the distribution of funding from all 48 SDE categorical grant programs active in FY 00 ($731.8 million) among major purposes. As the figure indicates:

- one program – the school construction grant -- accounted for 56 percent of total expenditures;
- three state special education grant programs made up 8 percent;
- two student transportation grant programs made up 6 percent; and

- the remaining 42 programs, which covered a wide array of educational purposes, comprised 30 percent of all categorical spending in FY 00.

The school construction program differs from the other grants in that its funding level is determined primarily by local district decisions to undertake building projects and apply for state aid. Due to its unique status, as well as its size and complexity, the school construction grant is excluded from the following analysis and discussed separately in the following chapter.

As Figure IV-2 shows, between FY 97 and FY 00 funding for all state categorical grants (excluding the school construction program) rose from about 10 to over 15 percent of total education aid administered by SDE. Over this time period, total categorical grant funding without construction increased nearly 100 percent.



The department's categorical grant programs primarily support local and regional school districts. However, annually since FY 97, about 14 to 18 percent of total SDE categorical funding (excluding the school construction grant), has been provided to other types of grantees such as regional education service enters, charter schools, and Head Start program operators.

Funding Trends and Patterns

Forty-two categorical grants distributed by SDE to school districts (single town and regional) during fiscal years 1997 through 2000 were analyzed in detail to determine trends and patterns in funding. Expenditures to districts from these grants programs in FY 00 totaled $266 million, about 13 percent of all state grant funds administered by the department.[1] The methodology for selecting and categorizing the SDE grants included in the program review committee analysis is described below.

Grant selection. The analysis was limited to categorical grants distributed by SDE to school districts (town and regional) during fiscal years 1997 through 2000. Using the department's online database a total of 69 grant programs were identified. Twenty-five grants were screened out because they were either inactive or not directed to school districts. This means for the four-year review period either no funding had been distributed from those grants

[1] Money received from SDE by organizations other than school districts under active categorical grants (e.g., $33 million in FY 00) was removed from the analysis.

or the entire grant was dispersed to agencies other than school districts. The ECS and school construction grants were removed because they are being analyzed separately, leaving a total of 42 active categorical grants in this analysis.

Grant classification. Each grant program was summarized by identifying important features such as: the year in which it started; purpose; target population; main factors for distribution of funds; annual expenditures from FY 97 through FY 01; procedures for distributing funding; major changes in criteria and procedures for distribution since 1990, and effect of those changes on the distribution requirements since 1990. Using this information, the grants were classified according to several key variables, including:

- the premise for the distribution of the grant (whether competitive, based on a formula, or both);
- to whom the grant was directed (either toward all school districts or selected school districts);
- whether the categorical grant is distributed based on factors related to student need, district wealth, and/or student performance; and
- which state education goal the grant is primarily intended to advance (i.e., reduce isolation, resource equity, improve achievement, or community involvement).

Results of the classification were entered in a database that additionally contained for all of the 42 grant programs the total amount of funding distributed, funding directed to school districts, total number of grantees, and number of school districts that received funding each year from FY 97 through FY 00.

Analysis results. Key findings resulting from the analysis concerning overall characteristics and funding relationships are highlighted below.

- *For all towns, categorical grants are a small source of education revenue but fiscal impact varies considerably.*
  - As a percentage of a town's net current expenditures for education, categorical grants accounted for 5.7 percent on average but ranged from 14.7 percent to 0.1 percent for FY 00.
  - On a per pupil basis, total revenues from categorical grants in FY 00 ranged from $1,616 to $5.
- *While the number of grant programs is relatively large, most of the categorical funding is distributed through a few major grants. Many of the individual grant programs are relatively small in terms of funding level.*

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Figure IV-3. Categorical Grants Over $10 Million in FY 00	
Transportation (Public)	$42.8
School Readiness	33.6
Sp. Ed. – State Agency	26.9
Priority School Districts	20.3
Early Reading Success	20.3
Sp. Ed. – Excess Cost	19.9
Adult Education	14.7
Sp. Ed. - Equity	11.5
Gen. Improvements	10.2

- Nine of the 42 grant programs (see Figure IV-3) were funded at more than $10 million each and together accounted for 75 percent of total categorical funding to districts in FY 00.

- Almost one-third of the active grant programs in FY 00 had funding levels under $1 million each and together accounted for only 1.4 percent of total funding

- *More grant programs are aimed primarily at promoting the state goal of student achievement, but more money is distributed under grants promoting resource equity.*

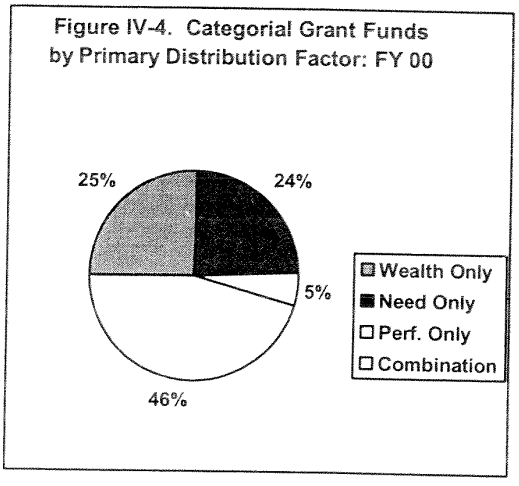
  - Thirty-seven percent of all grant programs have improving student achievement as their primary state goal, followed by resource equity (29 percent).

  - The grant programs primarily promoting resource equity account for 49 percent of total categorical funding, followed by achievement (33 percent).

- *Wealth is the predominant single factor in determining the distribution of categorical aid, but is only slightly ahead of student need, as Figure IV-4 shows.*

- *Wealth is also the most predominant factor in combination with other factors, again followed closely by need.*

- *The towns receiving the majority of total SDE categorical grant funding in FY 00 were the poorest, had the highest remedial student counts, and largest proportions of need student.*



  - The bottom 10 percent of towns in terms of income adjusted property wealth received 51 percent of total aid (48 percent went to the middle 80 percent of towns; 2 percent to the top 10 percent of towns).

- The 10 percent of towns with the most students performing at or below the statewide standard for remedial assistance received 57 percent of total aid (41 percent went to the middle 80 percent of towns; 3 percent to the 10 percent of towns with lowest counts). (Percents do not add to 100 due to rounding).

- The 10 percent of towns with highest concentrations of need students received 66 percent of total aid (32 percent to the middle 80 percent of towns; 3 percent to the 10 percent of towns with lowest need student counts) (Percents do not add to 100 due to rounding).

- The 14 priority districts (designated in statute according to a formula based on a district's population, number of children on welfare, and poor performing students) are given preference in about one-third of the categorical grant programs; they received 61 % ($161 million) of total categorical funding in FY 00.

Chapter V

School Construction

Connecticut provides school construction grants to towns for projects undertaken by local school districts, regional school districts, regional education service centers, endowed academies (subject to conditions), and approved interdistrict schools. Each town or regional district is eligible to apply for a grant that will provide partial reimbursement for school construction costs.

Eligible/Ineligible Costs

Projects that create new facilities or alter existing ones to provide or enhance instructional programs are generally eligible for school construction grants. Also eligible are projects intended to remedy code violations and supply comparable facilities among schools and grade levels within a school district. Infrastructure improvement, such as installing wiring and cable or other system upgrades to support telecommunications, is another category of eligible projects.

Further clarification of eligible projects is found in the State Board of Education's regulations which summarize eligible costs as:

- the costs of acquiring, constructing, altering or renovating buildings or structures;
- site preparation and development costs incurred on and for a school site construction project;
- equipment and furnishings for such school buildings or school site construction projects;
- architectural, engineering, construction management and legal fees ordinarily and reasonably necessary to the above costs; and
- bond issue costs incidental to financing the above costs, including bond advertising, preparation and printing of official statements, and bond execution costs.

Generally, school construction projects related to repair, replacement, or maintenance are not eligible for reimbursement. A major exception is work specifically required for correction of cited code violations or the replacement of roofs greater than 20 years old, which are eligible for reimbursement, and roofs between 15 and 20 years, which are eligible for reimbursement on a prorated basis.

Also not eligible for reimbursement are projects comprised solely of the following:

- stand-alone equipment and/or furnishing purchases, except for regional vocational agriculture center;

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- stand-alone site acquisition, except for special situations for priority school districts;
- swimming pools;
- auditoriums;
- outdoor athletic facilities;
- tennis courts;
- elementary school playgrounds;
- site improvements or garages or storage; and
- parking or general recreation areas.

However, such projects can be eligible for some level of reimbursement if they are a minor component of a comprehensive project and there is an integral relationship between this work and the comprehensive project. In the case of a swimming pool, auditorium, tennis court, or outdoor athletic facility, where such work does qualify its reimbursement rate is set at one-half the reimbursement percentage assigned to the overall project.

Reimbursement Calculation

Towns are reimbursed for eligible costs based on a rate determined by their relative wealth rank. By state statute the poorest town's reimbursement rate is set at 80 percent and the wealthiest is fixed at 20 percent.

The rates for single town districts falling between the poorest and wealthiest districts are based on where the town's wealth rank places it on a continuous scale ranging from the 80 percent reimbursement rate for the poorest town to the 20 percent rate for the wealthiest. For example, the second poorest town would be reimbursed at a rate of 79.64 percent, the third at 79.23 percent and so on until reaching the wealthiest town's rate of 20 percent.

The reimbursement rates for towns in multi-town school districts are determined using a population-weighted methodology. The population of each district town is multiplied by its adjusted equalized net grand list per capita ranking (i.e. a measure of wealth) and the results are summed. Dividing the total by the district's combined population yields a number that is rounded and used to determine the reimbursement rate applicable to each town in the district.

In the case of a magnet school, regional vo-agricultural school, or regional special education project, the reimbursement rate is set at 100 percent.

Under certain circumstances, the percentage a district is eligible to receive in the form of a reimbursement may be adjusted upward. These statutorily mandated adjustments include:

- in the case of a secondary regional school district, the sum shall be increased by 5 percentage points, except no such percentage shall exceed 85 percent;

- in the case of a K-12 regional school district the sum shall be increased by 10 percentage points, except no such percentage shall exceed 85 percent;

- in the case of a cooperative arrangement, the percentage shall be increased by 10 percentage points;

- if an elementary school building project includes space for a school readiness program, the percentage determined by the above shall be increased by 5 percent, but not to exceed 100 percent for the portion of the building being used for readiness;

- if the school building project is used to convert a school building to a lighthouse school, the percentage shall be increased by 5 percentage points;

- if the school building includes out-of-district students participating in an interdistrict program, the percentage shall be increased by the percent of spaces attributable to the out-of-district students up to a maximum increase of 10 percentage points; and

- if the school building is in a priority school district or is a priority school and the project is necessary to offer full-day kindergarten or reduce class size the percentage shall be increased by 10 percentage points for the portion of the building used for such purposes.

It should be noted that simply applying a town's reimbursement rate to the estimated total project costs might underestimate the local share. The miscalculation can occur because not all expenses are eligible for reimbursement and some costs may only be eligible for limited reimbursement.

Award Process

The process for obtaining a school construction grant begins with the authorization of a local legislative body for the board of education to apply to the commissioner of education for a school building grant. The actual application is made by the superintendent of schools on the form provided by the commissioner of education. Among other items an applicant is required to include are:

- certified copies of all local legislative authorizations;
- purpose of the project;
- educational specifications for the project;

- the board of education's written approval of the education specifications;
- cost estimates and related worksheets;
- financing information;
- square footage of the project;
- enrollment projections over the next eight years; and
- grade range.

School construction grant applications fall into two broad categories. One category is known as Non-Priority List projects and includes applications for projects intended to remedy damage from catastrophic events, correct code violations, replace roofs, or relocatables.

Non-Priority List projects are subject to the review and approval of the commissioner of the State Department of Education. The commissioner may issue grant commitments for Non-Priority List projects at the time a completed application is received and approved. Non-Priority List projects are funded under a general bond authorization set by statute.

The other school construction grant category is titled Priority List projects and includes such things as new schools, building renovations, building purchases, new technology infrastructure, and vocational agriculture equipment. Applications for Priority List projects must be submitted to the commissioner of Education by June 30 for consideration by the General Assembly and governor during the following calendar year. A final grant commitment can only be made if the project is approved by the General Assembly and signed into law by the governor.

The commissioner has the authority to receive, review, and recommend to the governor and General Assembly approval or disapproval of all Priority List applications based on whether the request is in compliance with requirements of the State Fire Marshal and the Department of Public Health, has a life-cycle cost analysis approved the Department of Public Works (if applicable), and meets the standards or priorities set by the State Board of Education.

In reviewing the grant request the education commissioner and education department staff consult with the applicant on any matter that is unclear or appears ineligible for reimbursement. At the conclusion of the review, the commissioner assigns Priority List project applications to one of three categories described below:

A. to provide for mandatory instructional programs (typical examples: new school, additions necessary due to increased enrollment, addition to women's locker room to comply with Title IX);

B. to enhance mandatory instructional programs and provide for comparable facilities among schools to all students at the same grade

level or levels within the district (typical examples: extension of media center to make comparable with another school, purchase vocational agriculture equipment, new school to replace one in disrepair); or

C. to provide supportive services other than athletic, storage, parking, or recreational facilities (typical examples: window replacements, relocate central administrative offices).

In the late fall applicants are sent a letter notifying them of the category to which their project has been assigned. The commissioner prepares a list of eligible projects organized by category and submits it to the governor and General Assembly on or before December 15, with a request for authorization to enter into grant commitments.

A committee from the General Assembly composed of two members appointed by the speaker, two by the House minority leader, two by the president pro tempore of the Senate, and two by the Senate minority leader reviews the list and determines if each project is in compliance with the categories and State Board of Education standards. The committee may modify the listings if it finds the commissioner has acted in an arbitrary or unreasonable manner.

The committee after reviewing the list and if necessary seeking clarification from the State Department of Education submits an approved or modified list to the governor and General Assembly's Education Committee by February 1. After passage of the bill containing the listed projects and related cost estimates, the commissioner of education is required to enter into grant commitments with the authorized projects.

Each approved project has until June 30 of the year following the legislative authorization to notify the State Department of Education that funds for the local share of the project have been authorized. The commissioner may grant up to three one-year wavers of this requirement. The department of education must approve the project's plan before work can start. If construction does not begin within two years of the legislative authorization or any extension granted by the commissioner, the commissioner may disapprove the project.

For projects approved prior to July 1, 1996, or for which an application was submitted prior to July 1, 1997, the district was required to finance 100 percent of the project and the state paid its share in amortized payments to the district over a 20-year period for projects with costs over $2,000,000 and over a 10-year period for projects with costs under $2,000,000. Public Act 97-11 of the June 1997 Special Session changed this procedure. Now the district is only required to finance its share of the project. The state's portion of the eligible costs is paid based on the progress made toward completing the project.

Analysis

The driving force behind the state's financial commitment is the number and scope of the construction projects school districts choose to undertake. The state has no direct control over the quantity or dollar value of projects for which the districts seek

reimbursement. If a district submits an application for an eligible project it is likely to be accepted by the commissioner of education, placed on the Priority List, and approved by the General Assembly and governor. It will then be funded based on the reimbursement rate derived from the appropriate formula set forth in the state statutes.

In discussing school construction grants it is important to distinguish between commitments and expenditures. Commitments represent an estimate of the cost of projects approved by the General Assembly and governor. If in the opinion of the commissioner a project changes significantly in scope or cost the commissioner has the authority to submit the revised project to the General Assembly and governor for reauthorization. It is also possible for a project to be withdrawn by the district or never obtain final approval of the commissioner.

Table V-1 shows the number and estimated value of the commitments the state made from 1997 through 2001. The data are broken down into new commitments and substantial revisions in previously made commitments. The table shows there is considerable variability within both categories. New commitments range from 117 to 201 in number and from $240.4 million to $846.9 million in the estimated dollar value. Similarly, the number of previously authorized projects that changed substantially in scope or cost ranged from eight to 39 and in dollar value from $37.5 million to $118.3 million.

Table V-1. New School Construction Grant Commitments 1997 – 2001

Year	*New Commitments*	*Estimated $ Value of New Commitments*	*Changes to Previously Authorized Projects*	*Estimated Net $ Value of Revised Commitments*
1997	128	340,260,919	8	37,518,889
1998	142	240,392,515	10	50,671,035
1999	117	302,335,656	35	104,469,088
2000	201	846,965,832	26	107.797,582
2001	130	744,778,001	39	118,313,164

Source of Data: CT Public Acts and SDE

The data graphed in Figure V-1 represent expenditures not grant commitments. The meaning of this can be illustrated with an example. Suppose a district received grant commitments for school construction projects in 1986, 1993, and 2000 and the payments for each project were spread over 20 years. The payments received from the state in 2000 for the projects authorized in 1986 and 1993 would be summed and counted as state construction aid expenditures. Money associated with the year 2000 commitment would not likely show up as an expenditure until 2001 at the earliest, since it is doubtful the project would get underway before then.

In terms of actual dollar amounts Figure V-1 shows a substantial and increasing sum of money was expended on school construction grants from 1997 through 2000. In 2000 the state spent slightly more than $400 million on school construction, which was approximately 2.75 times more than the amount the state spent in 1997. Certainly, a part

of the increase in construction expenditures is due to the state's move to a pay as you go system for projects approved after 1997.

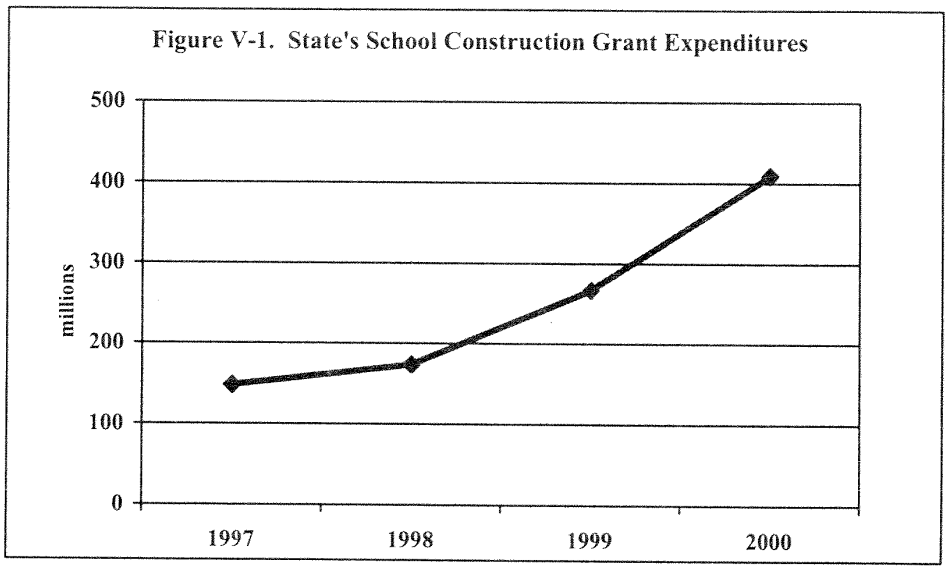
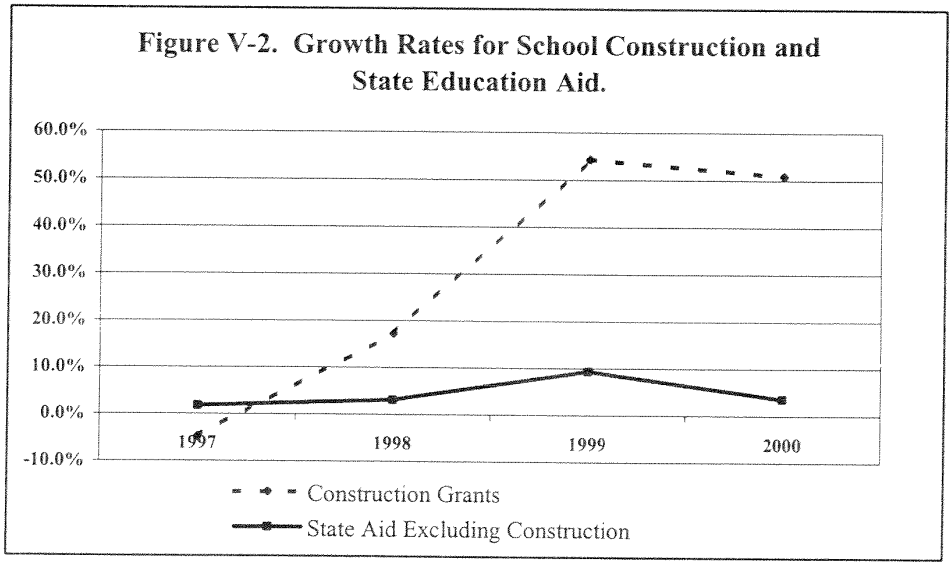


Figure V-2 shows a comparison of the rates of change in state aid to school districts for construction and all other state education aid. In only one of the four years depicted (1997) did the rate of increase in school construction aid fall below the rate of increase in spending on all other state educational aid programs. The graphic also shows school construction aid grew at a much faster pace than did overall education aid from 1997 to 1999.



The rapid increase in value of grant commitments and expenditures may be cause for concern. If the recent pace were to continue at some point the amount of money the state would have to commit to borrow or fund through taxes might pose a problem. Connecticut cannot infinitely increase its expenditures in this area without eventually having to either reassess the program or its priority relative to other programs and priorities in an outside the education area.

Chapter VI

State Funding and Tax Effort

Much of the discussion related to fairness of school financing systems focuses on the pattern and amount of education spending. Another aspect that has generated interest is the fairness in the distribution of the tax burden to raise revenue for schools.

A thorough analysis of the tax burden distribution for education would have to include each revenue source (i.e., property, income, and sales) and the level of government (i.e., local, state, and federal) responsible for raising the revenue. This would require a much more extensive inquiry than is covered by the scope of this study.

This chapter examines how tax effort was defined by the court and how the education financing situation has changed. Additional analysis broadens the discussion to alternative ways of examining the tax burden question.

Most of the money funding education in Connecticut derives from local government through its primary revenue source the property tax. The rationale behind this lies in part on the strong historical preference for local control of the educational system. Large variations in each town's capacity to raise revenues (based on property wealth) relative to the educational challenges within the respective school system, however, can require some towns to impose heavier tax burdens on their residents than others to provide a given quality of educational experiences. What education finance litigation has made clear, though, is that it is still the state's constitutional duty to fund the schools.

Although inequities may largely be offset by differences in state aid, some distortions may remain. Many believe the property tax imposes a burden on some taxpayers because it is not directly related to ability to pay. Regressivity can be a concern if higher property tax rates are levied in towns with above average proportions of poor households and lower rates levied in towns with wealthier households.

Ultimately, the question of tax fairness requires an examination of what values underpin the concept of fairness. For example, to some a flat tax appears to be a fair way to raise revenue, while a tax that increases in proportion to income seems fair to others. The answers incorporate specific values expressing preferences of what should be and what should not be and are not susceptible to empirical investigation. These types of wide-ranging policy changes are appropriately decided by the legislature.

State Funding and Per Pupil Spending

In the *Horton* decision, the Connecticut Supreme Court accepted a number of findings made by the trial court that taken together demonstrated the extent of the disparities that existed in financing elementary and secondary education. These findings along with a comparison between the situation in 1973 and today are provided below.

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State's contribution. The court first examined overall funding for elementary and secondary education and found the state's contribution inadequate. A review of the current funding practices produced the following findings.

- *The state increased its share of funding for education.* In 1973, the court noted 70 percent of education expenses were funded from local sources and about 25 percent came from the state. As indicated in the overview section, in 2001 the state funded about 41 percent of education expenses, while local governments funded about 53 percent.

- *The overwhelming majority of state funding for education takes into account each town's ability to pay.* Eighty percent of state aid in 1973 was distributed through a flat grant and 20 percent came from 13 grants. None of these aid programs was distributed based upon the town's ability to finance education. In 2000, of the $2.6 billion expended by the state, 54 percent ($1.4 billion) was distributed through the Education Cost Sharing grant, which explicitly takes into account each town's ability to pay. Most of the current categorical grants take into account ability to pay, including the largest grants -- transportation and school construction -- which account for over 62 percent of categorical funding and 17 percent of total state funding.

- *The goal of equal state-local funding has not been met at this time.* The State Board of Education adopted a goal to achieve equal state-local share of the total cost of public schools by 2005 or shortly thereafter. The board supports increasing state's share of education costs and reducing reliance on local property tax revenues as a way to reduce inequities among districts.

Taxable property and operating expenditures. Because the local property tax was (and continues) to be the principal source of funding used by local governments to pay for their share of public school education, the court asserted the ability of various towns to finance local education is based on the dollar amount of taxable property per pupil in each town. This can be determined by dividing the comparable value of the property in a town by the number of pupils (also called the yield per pupil).

Using this measure, the court reasoned the wide disparities in the amount spent on education by towns result from the wide disparities in taxable wealth. Higher tax rates in property-poor towns cannot generate the revenue that lower rates in property-rich towns do, leaving many taxpayers in property-poor towns to pay higher tax rates and get less for their children. So, regardless of educational needs of any particular town's schoolchildren in 1973, more educational dollars were allotted to children who lived in property-rich towns than to children who lived in property-poor towns.

Table VI-1 shows the towns divided into deciles based on per pupil property wealth and compares average yield per pupil and average per pupil operating expenditures for local share for 1973 and 2000. Operating expenditures include expenditures from all revenue sources,

excluding reimbursable regular education transportation, tuition revenue, capital expenditures and debt service. In general, the following issues can be noted.

Table VI-1. Yield and Operating Expenses based on Town Wealth Deciles. 1973 and 2000

Decile	*Average Yield Per Pupil*		*Average Per Pupil Operating Expenditures*	
	1973	*2000*	*1973*	*2000*
1Wealthy	$102,901	$1,374,481	$1,245	$9,965
2	75,785	869,734	1,115	8,816
3	66,182	688,496	1,110	8,410
4	58,090	576,620	1,030	8,313
5	52,651	511,292	958	8,077
6	47,335	467,328	889	8,046
7	41,495	408,191	908	7,910
8	36,134	370,529	877	7,792
9	31,724	329,687	899	8,042
10 Poor	25,474	268,202	813	8,573

First decile is the wealthiest based on OPM equalized net grand list. Operating expenditures include expenditures from all sources, excluding reimbursable regular education transportation, tuition revenue, capital expenditures and debt service.

Source: PRI calculations based on SDE data, OPM Equalized Net Grand List, and Horton v. Meskill (172 Conn. 615 (1977), 195 Conn. 24 1985))

- *The difference in yield per pupil increased -- meaning the value of the property tax base in property-rich towns increased at a greater rate than that in property poor towns.* In 1973, the court noted "wide disparities" in the effective yield per pupil ranging from $20,000 per pupil to $170,000 per pupil for a high to low ratio of 8.5. By 2000, the range was $209,420 to $2,492,153 per pupil for a high to low ratio of 11.9.

- *The difference in average per pupil operating expenditures between the top decile towns and the bottom decile towns has been reduced.* In 1973, the average per pupil operating expenses of the tenth decile towns were 35 percent less than the average of the first decile towns. In 2000, the average per pupil operating expenses of the tenth decile towns were 14 percent less than that of the first decile towns.

- *The statistical relationship between operating expenditures and town wealth has been reduced.* Many experts argue that no relationship should exist between educational spending and local property wealth per pupil – often referred to as fiscal neutrality. Statistical correlations were used to measure this relationship. Correlations are ways to measure the degree to which two variables are linearly related. While a strong correlation does not prove a

causal relationship, it often suggests one exists. The correlations over the years show weakening relationships from 1996 through 1999.[1]

Table VI-2. Average Spending Per Pupil by Wealth Decile, FY 2000

Decile	*Average Local Share Per Pupil Expenditures*	*Average State Aid Per Pupil w/ Const.*	*Average State Aid Per Pupil w/o Const.*	*Average Federal Aid Per Pupil*	*Total With Construction*	*Total Without Construction*
1	$10,202	$740	$239	$202	$11,144	$10,643
2	8,553	1,134	626	157	9,844	9,336
3	7,363	1,353	918	203	8,919	8,484
4	7,030	2,073	1,476	195	9,298	8,701
5	6,515	2,394	1,890	188	9,097	8,593
6	5,777	3,239	2,404	176	9,192	8,357
7	4,932	3,647	3,079	202	8,781	8,213
8	4,387	4,291	3,516	225	8,903	8,128
9	3,774	5,437	4,296	291	9,502	8,361
10	2,796	6,438	5,519	574	9,808	8,889

First decile is the wealthiest based on OPM equalized net grand list. Total spending includes operating expenses as well as special education and transportation expenditures.

Source: PRI calculations based on SDE data

Average total spending and state aid. Table VI-2 presents average total spending per pupil by wealth decile, revenue source, and total average spending with and without construction expenses for FY 2000. In this case, total spending includes operating expenses as well as special education and transportation expenditures. The table demonstrates the effect of state aid and the role it plays in bringing the per pupil spending of property-poor and property-rich towns closer together. The table shows:

- *Average total per pupil spending is greatest at the first (wealthiest) decile.* Total per pupil spending at the first decile is ($10,643), followed by the second decile ($9,336) and then the tenth decile ($8,889). The lowest are the sixth ($8,357), seventh ($8,213), and eighth deciles ($8,128).
- *The greatest difference in per pupil spending is between the first and eighth decile.* The difference between the top (first decile) and lowest (eighth decile) *per pupil expenditure* is $2,515 (31 percent lower), and the difference between the *first decile and the tenth decile* is $1,754 per pupil (20 percent lower).
- *Property-poor towns (tenth decile) receive the most state aid.* As property wealth increases, the state share of education decreases - the first decile towns receive an average of $239 per pupil (not including construction grants), while

[1]The coefficient of determination (r^2) is a number between zero and one which describes the portion of variation in one variable which can be attributed to variation in the other. In 1996, the r^2 value for the correlation between wealth and operating expenditures was 0.41 and in 1999 it was 0.32.

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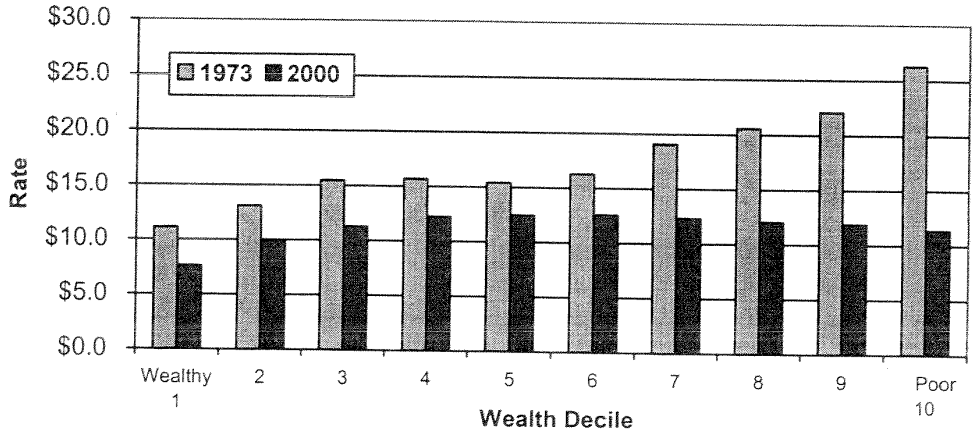
the tenth decile towns receive $5,519 per pupil (or 62 percent of the average total spent). Conversely, local share increases as property wealth increases – the first decile towns fund an average of $10,202 per pupil from local sources, while the tenth decile towns fund an average of $2,796 per pupil.

Education Mill Rates and Local Share

Below is an analysis of tax effort measured in several different ways. First, an examination of the tax rate for the local share of education expenses based on an equalized net grand list is presented. Secondly, a comparison is provided of the tax rates for local share based on the equalized net grand list adjusted for income. Finally, an assessment of local share as a portion of household income and as a percentage of total town income is offered.

Mill rate based on ENGL. The court stated tax effort of a town to finance education may be measured by determining the net school mill rate which is that part of the mill rate a town spends on education. An equalized property wealth measure was developed to compare the effort among the towns because unadjusted town mill rates are based on different assessment ratios and schedules for valuation. The equalized net grand list (ENGL) calculated by the Office of Policy and Management is the value of real and personal property at 100 percent fair market value. A mill is equal to $1.00 of tax for each $1,000 of assessment. Because the mill rate for education presented below is calculated based on the ENGL, it is an indicator of the difference between towns not the actual amount that is paid.

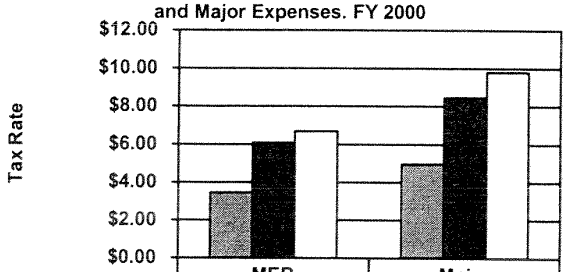
Figure VI-1. Equalized Education Mill Rate for Local Share by Wealth Decile.
FY 1973 and 2000



The local share of all current education expenditures was obtained for each town and divided by each town's ENGL to determine each town's education mill rate. Figure VI-1 contains education mill rates by wealth decile for the local share of education expenses in 1973 and 2000. The figure shows a number of distinctions among the towns.

- *The difference between the education mill rate for the property-rich towns and the property-poor towns for the total local share of education expenses, while still significant, has decreased.* In 1973, the difference between the first decile's average mill rate and the tenth decile's was 137 percent, while in 2000 this difference was reduced to 49 percent. The greatest difference is now between the first decile and the fifth and sixth decile (63 and 65 percent);
- Another way of considering the difference is that in 1973, the average net school mill rate of the tenth decile towns was almost 2½ times the first decile towns. In 2000, the average education mill rate of the tenth decile towns declined to 1½ times the first decile.
- *The equalized education mill rate among the towns does not meet the principle of a uniform mill rate.* Ideally, according to education finance literature, similarly situated homeowners should be paying a similar rate for education in each town. To use a simplified example of inequity, a taxpayer in the first decile towns with property valued at $200,000, would pay about $1,500 to support the local share of education, while the tenth decile taxpayer would pay about $2,300 on an equalized basis.

Figure VI-2. Average Equalized Mill Rate for MER and Major Expenses. FY 2000



	MER	Major
Top 10%	$3.45	$4.96
State Average	$6.09	$8.46
Bottom 10%	$6.68	$9.81

Expenditure type

MER and major expenses. The equalized tax rates were also calculated for the top and bottom 10 percent of towns for the 1) minimum education requirement expenses (MER), which consist of all regular public elementary and secondary educational expenditures except those related to special education, state and federal grants (except ECS and federal impact aid), transportation, most construction and debt service expenditures, and adult education[2]; and 2) MER plus the local share special education and transportation, which represents the major mandated education programs.

Figure VI-2 shows the results for these two categories of expenditures. The average rate for the bottom 10 percent of towns (property-poor) based on ENGL is greater for both categories of educational expenditure than the top 10 percent. When considered together with the previous finding regarding the tax rate for the total local share, property-poor towns have greater equalized rates for education expenses than property-rich towns.

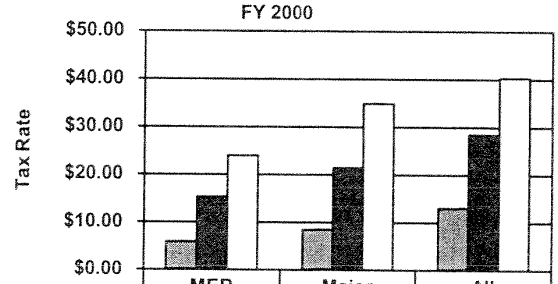
Income adjusted mill rate. A measure was also calculated to compare the *relative tax effort* for education among the towns based on *income adjusted equalized tax rates* derived from

[2] ECS grant has been subtracted from the MER amount for each town to isolate local expenses. Federal impact aid is funding given directly to towns to offset costs for students who reside on federal tax exempt land.

the local share of education expenditures. The equalized net grand list (ENGL) produced by the Office of Policy and Management, adjusted for both per capita and median household income, was used to create a comparative measure.

The income adjustment was made because a town's taxing capacity is affected by the income of its residents and is consistent with the wealth factor used in the ECS formula.[3] This adjustment effectively reduces of the value of the taxable property in each town by comparing each town's per capita and median household income to the town with the highest per capita and household income. The adjusted equalized tax rates were calculated for the MER, major expenses, and all local expenditures.

Figure VI-3. Average Income Adjusted Rate for Top and Bottom 10% of Towns and Statewide FY 2000



	MER	Major	All
Top 10%	$5.88	$8.45	$13.07
State Average	$15.38	$21.43	$28.47
Bottom 10%	$23.94	$34.89	$40.28

Expenditure type

Figure VI-3 compares the average statewide equalized education tax rate with the top and bottom 10 percent of towns (in terms of wealth) for the three expenditure categories described above. Overall:

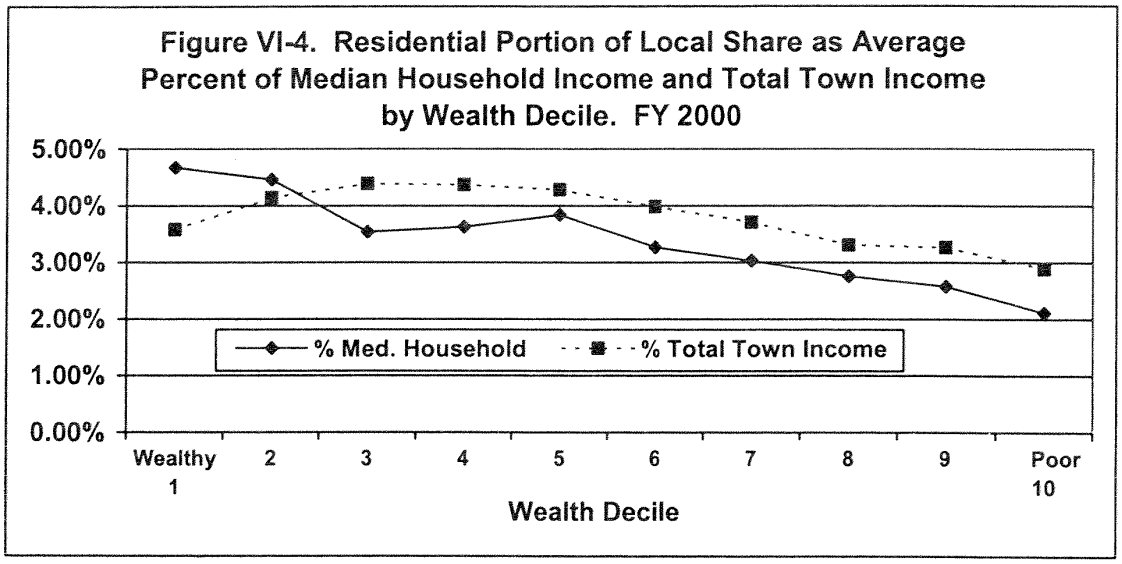
- the wealthier towns' (top 10 percent) tax burden is less for each of the expenditure categories;
- for MER related expenses, the mean statewide is 15.38; top towns 5.88, bottom towns 23.94;
- for major mandated expenses, the mean statewide is 21.43, top towns 8.45, bottom towns 34.89; and
- for all current expenditures, the mean statewide is 28.47, top towns 13.07, bottom towns 40.28.

Local Share and Income

Although the court measured tax effort by comparing equalized mill rates among the towns, tax effort can also be related to income. Two alternative measures of tax effort were developed. The first measure represents the residential portion of the local share of education expenses as an average percent of median household income by wealth decile. Because median household income is related to residents, this measure is calculated by separating the residential

[3] Formula for this adjustment is same as ECS i.e., Property Wealth = Equalized Net Grand List x Income Adjustment Factor (IAF); IAF = (((PCI/HPCI) + (MHI/HMHI))/2) where HPCI = Highest Town per Capita Income, HMHI = Highest Town Median Household Income, PCI = Per Capita Income, HPCI = Highest Town Per Capita Income

and non-residential portions of the tax base and assigning a portion of the local share of education expenses to each part of the base. The average percentage of median household income is then derived for each wealth decile.



The second measure examines local share as a percent of total town income by wealth decile. Figure VI-4 presents the results.

- *Generally, the wealthier the town the greater the proportion of median household income dedicated to local share of education expenses.* The property-poor towns have the lowest percentage of residential income dedicated to local share. Although the percentage dips a bit for the third decile towns, the proportion gradually increases from 2.11 percent from the property poor towns to 4.67 percent for the property rich towns.
- *Except for the two wealthiest deciles, the wealthier the town the greater the proportion of total town income dedicated to local share of education.* Local education expenses on average represent about 2.89 percent of total town income for the first decile property-poor towns. This percentage peaks at about 4.39 percent for the third decile towns and declines to about 3.58 percent for the wealthiest first decile towns.

In summary, the program review committee reports the following findings.

State Funding and Per Pupil Spending

- *Since the Horton decision (1973), the state increased its share of funding for education and the overwhelming majority of state funding for education takes*

into account each town's ability to pay, but the goal of equal state-local funding has not been met.

- *The difference in average per pupil operating expenditures between the wealthiest towns and the poorest towns has been reduced.*
- *Property-poor towns (tenth decile) receive the most state aid – an average of $5,519 per pupil or 62 percent of the average total spent in FY 2000.*
- *The statistical relationship between property wealth and the amount of per pupil operating expenses has been reduced since the mid-1990s.*
- *Still, the average total per pupil spending is about 20 percent greater in the wealthiest towns compared to the poorest.*

Education Mill Rates and Local Share for Education

- *The difference in the mill rate for the local share of education expenses between the property-rich towns and the property-poor towns, while still significant (49 percent), has decreased.*
- *The equalized education mill rate among the towns does not meet the principle of a uniform mill rate – that is similarly situated taxpayers paying the same mill rate for education.*
- *When adjusted for income, mill rates indicate wealthier towns' (top 10 percent) tax burden is less for the local share of education expenditures.*

Local Share For Education and Income

- *Generally, the wealthier the town the greater the proportion of median household income dedicated to local share of education expenses.*
- *Except for the two wealthiest deciles, the wealthier the town the greater the proportion of total town income dedicated to local share of education.*

The committee did not recommend any changes to the formula with regard to tax effort. The current elementary and secondary education finance system appears to be consistent with the directives of the Connecticut Supreme Court. The ECS aid formula and categorical grants are by and large distributed according to the ability of towns to pay for education. The state's contribution to education and the degree of targeting of educational aid has increased considerably. Clearly, the gaps in spending and in tax effort between rich and poor communities, while not eliminated, have been reduced through the efforts of the state distribution scheme.

Two areas of concern are worth highlighting -- lack of uniformity in equalized mill rates for local share of education and the 20 percent differential between property-rich and property-poor towns. While significant progress has been made in both these areas, further improvement requires the state do one or more of the following: provide additional funding for education, reduce funding to wealthy communities, cap the spending of wealthy towns, or require additional payments from wealthy communities to aid property-poor towns.

Given the place local control over education has within our political system and the general disdain for additional property taxes, it is unlikely caps or additional payments would be feasible or desirable. However, additional funding from the state derived largely from the more progressive income and sales tax may be the more palatable alternative.

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Accountability Measures

Two statutory provisions intended to provide local accountability for adequate education spending, the minimum expenditure requirement of the ECS grant and the prohibition on supplanting of town expenditures for educational purposes, are discussed in this chapter. Both measures are aimed at ensuring towns use state equalization aid, which unlike categorical funding is not restricted for specified purposes, to support their elementary and secondary education programs.

Minimum Expenditure Requirement

Section 10-262j of the Connecticut General Statutes requires towns to spend a minimum per pupil amount on education in order to be eligible for state aid. The statutory minimum expenditure requirement (MER) was adopted as part of the legislature's response to the Connecticut Supreme Court decision in the Horton v. Meskill case. The intent was to establish the lower limit for expenditures on education by a town.

Under the statute, the MER is an amount calculated each year for each town based on its expenditures related to regular education program expenditures. The current formula for determining a town's minimum expenditure requirement, first adopted in 1998, is shown below.

MER	=	Previous Year's MER	+	Current Year's ECS	-	Previous Year's ECS	-	Resident Student Adjustment

In effect, the MER is a town's increase in ECS aid, if any, added to it's minimum spending level for the past year, adjusted for changes in enrollment. The resident student adjustment equals the lower of zero or the current year's resident students minus the previous year's students, times one-half the state foundation. As a result, a town's MER decreases if enrollment declines, but stays the same as the previous year if enrollment increases.

Figure VII-1 shows spending over a five-year period by school districts statewide and by the highest and lowest educational reference groups relative to the MER. As the figure indicates:

- statewide, the trend is toward greater spending in excess of the MER; and
- the increase is most pronounced for districts in the highest ERG.

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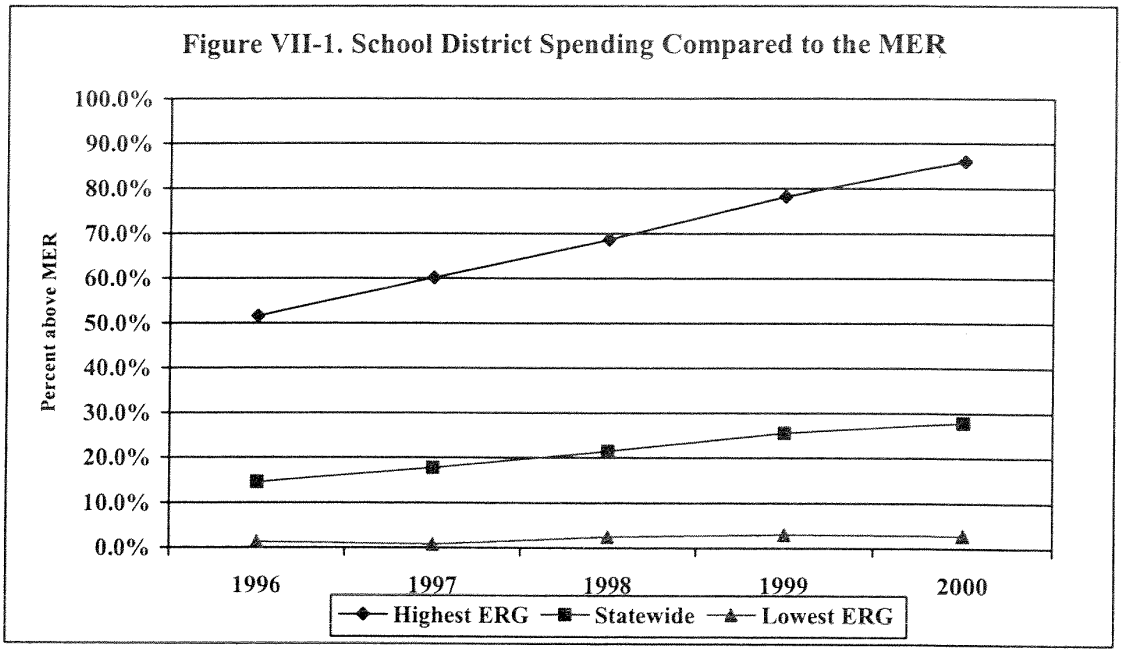

Enforcement. The penalty for failure to meet the MER is forfeiture of an amount equal to two times the difference between a town's MER and its actual regular education program expenditures. The forfeited amount is withheld from the town's ECS grant for the second fiscal year following its failure to meet its minimum spending level.

The state board may waive the forfeiture upon agreement with the town or regional district that it shall exceed its MER during the fiscal year in which the forfeiture would occur by at least the forfeited amount. Funds expended to do so are not to be included in the calculation for any future MER.

The state board, under C.G.S. Section 10-4b, can investigate and require compliance if it determines a local or regional school board has not provided educational opportunities as required by various statutory mandates including the minimum expenditure requirement. The state education department regularly monitors MER compliance and will work with towns projected to fall short of MER.

The department determines compliance by collecting expenditure projections from each district at various points during the year; audited end-of-year figures are used to ensure actual compliance. Any town found to be within 5 percent of its MER is warned in writing to closely monitor expenditures. If projected expenditures are below the required minimum level, the town is required to submit a detailed expenditure report and any plan it has to avert a shortfall.

Usually a town will add funds if its school board cannot adjust its budget to achieve MER compliance. It is State Board of Education policy that shortfalls of less than 1 percent of a town's MER can be resolved at the local level without an official board investigation. However,

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if it is found the town is not providing a local board with sufficient funds to meet its minimum spending level, the state board can order the town to appropriate additional funds. The state board can and has gone to court to enforce such orders. As noted above, the board can impose financial penalties (i.e., forfeiture of state funding) for failure to comply with MER provisions. Actions taken by the board during the past decade to address cases of MER noncompliance are summarized below.

Between FY 91 and FY 00, State Education Department monitoring identified 23 cases of MER shortfalls involving 14 different towns. Over half of the cases (13) occurred in a three-year period following the major revisions to the ECS formula and MER calculation in 1995 (e.g., incorporating funding for "ordinary" special education costs in the ECS grant). Subsequent changes to the calculation of the minimum expenditure requirement in 1998 resulted in significantly fewer instances of spending shortfalls.

As the following table indicates, court orders to bring compliance were sought in two cases, both involving the city of New Haven, and forfeiture of ECS aid was ordered by board once. Forfeiture was waived by the board in nine cases as towns agreed to spend an amount equal to the shortfall penalty in addition to their minimum requirement in the following year. In five cases where MER shortfalls were less than 1 percent, towns were permitted to resolve the underspending issue locally. In four cases, no action was required as projected shortfalls were eliminated following review of final audited expenditure amounts.

Table VII-1. Outcomes in Cases of MER Shortfalls: FY 91 – FY 00

Action Taken	*District/Fiscal Year*
Board ordered compliance; court order to enforce	• New Haven FY 91, FY 92
Board imposed forfeiture penalty	• Derby FY 98
Board waived forfeiture penalty upon town agreement to expend penalty amount in addition to MER level	• Meriden FY 93, FY 94 • Thompson FY 94 • Hartford FY 95, FY 97 • Ashford FY 95 • Derby FY 96, FY 97
Board dismissed complaint upon town providing funds to meet MER level	• Union FY 93 • Naugatuck FY 96
Local action taken to address shortfall (no official board action taken)	• Lebanon FY 95 • Killingly FY 95 • Canterbury FY 97 • New Britain FY 98, FY 00
Projected shortfall not realized (based on final audited expenditures)	• West Haven FY 96 • Naugatuck FY 97 • Voluntown FY 97 • New London FY 98

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Discussion. Conceptually, in a foundation system, a MER is directly linked to the per pupil spending amount determined necessary for an adequate level of services; a town's spending floor is calculated by multiplying the foundation amount times needs students. In this way, the MER will reflect any changes in costs included in the foundation or in a district's student population. Also, the base for determining state aid levels and a town's required minimum spending levels are the same.

The MER in Connecticut's ECS grant was linked to foundation and need students until 1995. At that time the state consolidated funding for special education with a town's equalization aid by increasing the foundation amount and including all special education pupils in the count of need students. Recognizing these changes would substantially increase each town's minimum expenditure requirement for the following year and create financial hardships, the legislature revised the MER calculation. Since that time, the MER is set at a town's minimum expenditure level for 1997 plus its annual increase in ECS aid.

Like other parts of the ECS program, the MER is becoming increasingly dissociated from actual costs of providing educational services. In theory, returning to the foundation times need student calculation for the MER would be an improvement but this alternative is complicated by at least two factors. First, significant spending increases on regular education program expenditures would be required in many towns. Second, while ECS grants incorporate state aid for "ordinary" special education costs, neither the foundation amount nor the MER have been adjusted since 1997 to reflect special education expenditures.[1] In fact, local spending that supports special education costs is specifically excluded from the calculation of a town's minimum expenditure requirement.

The committee believes no changes should be made in the MER until the cost commission recommended earlier completes its work in determining the appropriate foundation level and need student weights for the ECS formula. How to take into account special education students and the costs associated with their needs is a matter the commission will need to address and its findings can guide future decisions about setting the MER level.

Supplanting Prohibition

Section 10-262i(c) of the Connecticut General Statutes requires all ECS aid received by a town be used for educational expenses. Language added in 1998 (P.A. 98-168) further prohibits a town from using any increase in ECS funding to "supplant local funding for educational purposes" beginning in FY 99.

Data on the local share of education expenses for each town were obtained from the State Department of Education for FY 99 and FY 00. Changes in ECS aid were compared to changes in local share. Several towns appear to have violated the no-supplant prohibition.

- *In FY 99, 10 towns reduced their local share. State ECS aid increased in six of the towns. In the other four towns, state ECS aid was reduced but the local*

[1] Towns are responsible for all expenses associated with a special education student's program up to 4.5 times their average per pupil expenditure. A separate state grant is provided to towns to assist with 100 percent of the costs over that amount.

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share reduction was greater than the ECS aid reduction. The amount of the reductions ranged from $20,000 to over $1.1 million.

- *In FY 00, 11 towns reduced their local share as state ECS aid increased in each town. The amount of the reductions ranged from $28,000 to over $2.5 million.*

In correspondence to a committee request, the State Department of Education concurred with the analysis and acknowledged towns reduced their local share of education expenses. The statute contains no specific penalty for violations, although the State Board of Education has general authority to initiate an investigation, conduct hearings, require remedial actions, and order compliance with statutory education mandates under its jurisdiction.

Neither the state board of education nor the education department have notified the towns of the violations or taken any actions against them to compel compliance with the no supplanting mandate. The department has suggested comparing multi-year cumulative changes in total local expenditure to the changes in ECS aid is a more accurate reflection of district effort; using a four-year cumulative analysis would result in only one town in apparent violation of the statute. The program review committee does not believe this interpretation can be accommodated within the framework of the current statutory language.

The legislative history of the statute suggests the intent of the General Assembly was to ensure ECS grant money was used for educational expenses in addition to local money already budgeted. Supporters of the legislation cited concerns that towns could divert state funding for education to other unrelated local purposes.

In reviewing the application of the no supplant statute and analyzing the impact on towns, the program review committee concluded:

- *the provision redefines ECS as solely an education grant and eliminates any local tax relief component from the state's equalization aid program; and*
- *the current statutory language is unclear and, in certain circumstances, may be unreasonable.*

Although never stated in statute, a recognized purpose of the Education Cost Sharing grant as well as its predecessor program, the Guaranteed Tax Base, was equalization of tax effort (taxpayer equity). Before the no-supplant provision was enacted, towns had discretion over the uses they made of ECS funding, including purposes unrelated to education, provided they met their minimum expenditure requirement (MER), a statutorily defined minimum amount of education spending set for each town. As an accountability measure, the MER law permits local control over education spending decisions while ensuring local effort is maintained at a level the state deems necessary for adequate educational services.

The committee determined municipalities may have legitimate reasons to reduce their local share of education spending from a prior year, even while their ECS aid increased. Examples are outlined below.

- Reductions in the number or needs of a district's special education population could occur, and because special education is largely supported by local government, a reduction in the local share of education spending could be warranted.
- The no-supplant provision does not allow for possible efficiencies that may accrue from operating improvements or changes in service levels within a school district. In fact, a town could be penalized for implementing better management practices.
- The no-supplant provision does not take into account that a large, one-time expenditure (e.g., upgrading textbooks, other instructional materials or equipment) can temporarily increase local share. While the purpose for the spending increase has been met, the level of local spending would have to remain constant in subsequent years.
- As the cap on ECS increases is phased out, more aid is going to the capped municipalities. In 2002, the state also provided an extra $25 million in supplemental grants for towns subject to the cap. Theoretically, a capped town is paying a portion of its education budget that should be supported with state aid. It stands to reason that capped towns, in certain instances, may reduce local share while the phase-out is implemented.

It is apparent to the committee the no-supplant statute was passed in an attempt to promote greater accountability over local use of ECS funding. The law seeks to prohibit towns from using state aid for tax relief at the expense of education quality. However, as currently written, there is no possibility for towns to cut back on local spending even if justified by circumstances such as those outlined in above examples. In addition, the statutory language is difficult to interpret and apply and lacks any specific enforcement mechanism.

The committee believes there are two different ways to address the issues raised by the existing supplanting restriction. Under one option, unfair requirements for local spending can be avoided and the implied tax relief policy of the ECS grant can be retained by repealing the no-supplant provision. A second approach is to continue the current ban on supplanting, but amend the existing statutory language to clarify its intent and make it easier to implement. Both options are discussed in more detail below.

Option 1. Eliminate the no supplant provision and rely on the MER for accountability.

To permit legitimate local discretion over education spending and eliminate unclear and overly restrictive requirements on the use of state funds, the language in C.G.S. Section 10-262i(c) that prohibits supplanting of local funding for educational expenditures should be repealed.

Discussion. With the repeal of the no-supplant provision, the primary restriction on local use of state ECS aid is the minimum expenditure requirement. As discussed above, the MER ensures a certain level of local commitment to education spending as defined by the state. Under the way the MER is currently calculated, towns in effect must apply all ECS aid they receive to

education spending. In addition, all towns at present must spend more than what they receive in ECS grants to meet their MER.

Thus, the MER law alone now results in statewide compliance with the statutory requirement that towns spend all ECS funding for educational purposes. It does not prevent towns from decreasing their contributions to educational spending above the minimum level. However, as above analysis shows, instances of supplanting have been rare and under certain circumstances reductions in local spending may be considered justified.

Option 2. Clarify existing no supplanting statutory language.

To clarify the intent of the no-supplant provision and make the spending restrictions more reasonable, C.G.S. Section 10-262i(c) should be amended to incorporate the following provisions:

- definitions of the terms "supplant" and "local funding for educational purposes" and the funding time period;
- a method for calculating changes in local share of a town's education spending based on cumulative totals over a three-year period;
- specific authority for the state education department to monitor compliance with the no supplanting requirements;
- a specific penalty for noncompliance, such as permitting the state education department to reduce state aid in the succeeding year by an amount equal to the reduction made in local share;
- allow a municipality to request approval from the commissioner of education to reduce its local share of education spending, with approval only being granted if the town demonstrates reductions are related to significant cost efficiencies or reductions in student needs, receipt of state aid to compensate for prior underfunding, or other circumstances the commissioner deems reasonable; and
- require the commissioner to annually report to the legislature all instances of reductions in local education funding including approved requests, indicating the amount of and reasons for the reduction of local share.

Discussion. The proposed amendments correct several weaknesses in the present law by making clear what types of funding and what spending timeframe is subject to the supplanting prohibition. Greater flexibility in applying the requirement is achieved by using multi-year calculations of spending and allowing the commissioner to authorize waivers from the requirement in certain cases. Accountability is strengthened by outlining the state education department's responsibilities, establishing an enforcement mechanism, and requiring reports to the legislature. The changes do make implementation of the requirement more complex and will require additional effort by the education department staff.

Each option represents a different policy approach to accountability for local spending of state aid. The program review committee recommends:

adoption of Option 2, which clarifies current statutory language prohibiting supplanting of local education funding and establishes an enforcement mechanism.

The recommendation makes the ban on supplanting workable by defining terms and specifying the state education department's role and responsibilities for ensuring compliance. Through the waiver procedure, a town can, with department approval, reduce its local share of spending for educational purposes in limited circumstances.

APPENDICES

STATE OF CONNECTICUT

STATE BOARD OF EDUCATION

March 20, 2002

Mr. Michael Nauer, Executive Director
Legislative Program Review and
Investigations Committee
State Capitol, Room 506
Hartford, Connecticut 06106

Re: Legislative Program Review and Investigations Committee
Final Report on Connecticut's Public School Finance System

Dear Mr. Nauer:

Thank you for the opportunity to review and comment on the recommendations included in the recently completed Connecticut's Public School Finance System study. Your staff is to be commended. The study has accurately targeted many of the issues that continue to challenge school finance policy in this state. The recommendations will certainly help frame further debate on the direction of the Education Cost Sharing (ECS) formula and other school funding programs as well. Comments on each of the study's recommendations follow:

Recommendation:

The state board of education shall, in a format developed in consultation with the legislature's education committee, submit to the governor and the General Assembly each year by January 1, an analysis of key performance measures of resource equity and equal education opportunity. The measures should include but not be limited to generally accepted school finance equity statistics, specifically the 95:5 ratio, the McLoone Index, and the coefficient of variation, and indicators of instructional program quality such as student-to-staff ratio, class size and instructional hours, teacher quality, adequacy of equipment and facilities, and student achievement, such as standardized test results and post-graduation pursuits.

In addition, a fiscal impact statement shall be prepared for any bill related to the education cost sharing grant and shall include at a minimum an analysis of the impact of the bill's provisions on three school finance equity statistics, the 95:5 ratio, McLoone Index and coefficient of variation, calculated using the most recently available fiscal year data.

Response:

Most of the information listed in the first paragraph of the recommendation is already collected by the Department or can be generated without much difficulty from data currently reported. These statistics and others like them will help monitor progress over time. One question worth raising is whether or not annual reporting to the legislature is needed, given the likelihood of very incremental shifts in any one year. A biennial report might do as well.

It is our understanding that the Office of Fiscal Analysis is already required to develop a fiscal impact statement for ECS legislation. Naturally, any projection of impact on the statistical indices listed would be dependent on the assumptions made about the behavior of local school districts and municipal finance authorities given a particular bill's passage.

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Overly optimistic or pessimistic assumptions would attach a corresponding slant to the fiscal impact statement.

Recommendation:

An educational cost commission to set and systematically update the foundation level shall be established.

The commission's initial foundation level shall be reported to the governor and General Assembly on January 1, 2003, and every four years thereafter.

The governor and General Assembly shall in all actions relevant to state financing of local education follow the foundation level set by the commission.

The commission shall consist of nine members including: the commissioner of education; two representatives of local boards of education appointed by the governor; two representatives of superintendents of local school districts, one appointed by the speaker of the house and one by the minority leader of the senate; two representatives of local school district teachers, one appointed by the senate president pro tempore and one appointed by the minority leader of the house of representatives; and two representatives of municipal governments, one appointed by the senate president pro tempore and one appointed by the minority leader of the house of representatives.

The foundation shall reflect the minimum amount of money necessary to provide an adequate education for an average student.

Response:

Clearly the foundation level is key to the long-term viability of the ECS formula – or, for that matter, any successor formula that might follow it. The State Board, this agency and past task forces comprised of local officials, state executives and legislative representatives, and education groups have all concurred on that issue. While cap elimination has taken priority over foundation growth, the end of the cap is in sight. This and the projected leveling off of enrollment growth should allow for the foundation to become the focus of ECS formula growth.

Recommendation:

The supplemental aid component of the ECS formula shall be terminated at the end of FY03 in conjunction with the adoption of a set of weights for counting students with special needs recommended by the education cost committee.

The regional bonus component of the ECS grant program should be terminated at the end of FY03 and funding to address specific needs of consolidated school districts should thereafter be part of a categorical grant program.

The density supplement component of the ECS grant program should be terminated at the end of FY03 and any funding to address specific needs of urbanized school districts should thereafter be part of a categorical grant program.

Response:

There are several recommendations to remove various minor formula provisions, such as the regional bonus, supplemental aid and density aid, proposing in some cases to establish categorical grants to replace them. There is no question that moving such provisions out of ECS to their own categorical status will simplify the ECS calculation and will make it easier to identify and monitor fiscal impact. It may be worth noting that the costs of these provisions are generally a very small percentage of total ECS costs.

Recommendation:

The ECS cap should be terminated as scheduled at the close of the fiscal year ending June 30, 2003.

Response:

As reported by the ECS Task Force of 1998, eliminating the cap on ECS growth was the number one priority. With the progress made since then, the end of the cap is in sight and should continue to be pursued as a top priority.

Recommendation:

All but the minimum base aid ratio hold harmless provisions shall be terminated by the end of FY02, except for the fiscal year ending June 30, 2003 no town shall receive less than its total ECS grant for the fiscal year ending June 30, 2002. For purposes of calculating the ECS grant, fiscal year ending June 30, 2003 shall be considered the base year.

For the fiscal year ending June 30, 2004 and each fiscal year thereafter, if the state does not fully fund the ECS grant program, each town shall receive the same percentage of the funds budgeted for the ECS grant program [in excess of the amount budgeted for the fiscal year ending June 30, 2003] as the town's percentage share of the total base aid calculated under the provisions of CGS Section 10-262h(6), except in no instance shall a town receive less ECS grant aid than the amount of its ECS grant for the fiscal year ending June 30, 2003 in any succeeding year.

Response:

These recommendations would restructure the existing hold harmless provision in ECS by establishing FY2003 as a floor. Without having examined the specific impacts of this recommendation, it seems likely that any ECS grant model will continue to address the concerns of towns with declining formula entitlements through some type of minimum aid provision. Such provisions have historically accounted for less than 3 percent of total ECS.

Recommendation:

The state education department shall make an interactive ECS grant calculation spreadsheet available on its website beginning January 1, 2003.

Response:

The Department agrees that an application of this type would be of considerable use to various ECS constituencies. Planning for this has already begun in fact.

Recommendation:

Clarify the intent of the no-supplant provision and make the spending restrictions more reasonable, C.G.S. Section 10-262i(c) should be amended to incorporate the following provisions:

definitions of the terms "supplant" and "local funding for educational purposes" and the funding time period;

a method for calculating changes in local share of a town's education spending based on cumulative totals over a three-year period;

specific authority for the state education department to monitor compliance with the no supplanting requirements;

a specific penalty for noncompliance, such as permitting the state education department to reduce state aid in the succeeding year by an amount equal to the reduction made in local share;

allow a municipality to request approval from the commissioner of education to reduce its local share of education spending, with approval only being granted if the town demonstrates reductions are related to significant cost efficiencies or reductions in student needs, receipt of state aid to compensate for prior under funding, or other circumstances the commissioner deems reasonable; and

require the commissioner to annually report to the legislature all instances of reductions in local education funding including approved requests, indicating the amount of and reasons for the reduction of local share.

Response:

The Department concurs with the findings of the study that the Minimum Expenditure Requirement (MER) should be the primary measure of mandatory local spending on regular education programs. The issue of supplanting within the context of an equalization formula needs to be considered not only from the aspect of new aid being directed to education but also in light of certain communities having to carry a higher tax burden than would have been necessary if there had never been an ECS cap.

In closing, the Department would like to again commend the review team for their diligence and thank them for their willingness to discuss their thinking and to share analyses throughout the study. The quality of the report certainly reflects that diligence. We look forward to working with the legislature as it considers further action on these or other ECS proposals.

Sincerely,

Theodore S. Sergi
Commissioner of Education

TSS:rbk

cc: George McKee, Legislative Program Review and Investigations Committee
Mark Stapleton, Chief, Office of Legal and Governmental Affairs
Robert Brewer, Director, Division of Grants Management

Appendix B
Glossary of ECS Terms

Adjusted equalized net grand list (AENGL) is a measure of town property wealth (equalized net grant list) adjusted for per capita and household income.

Average mastery percentage is the average of a town's three most recent mastery percentages (i.e., the total number of mastery tests with scores below the remedial assistance standard set by the state education department divided by the total number of tests taken each examination year).

Base aid is one of the main components of the ECS grant formula and means the amount calculated by multiplying the per pupil cost of a minimally adequate education (foundation) times the measures of educational need in a town (total need students) and local ability to pay (base aid ratio).

Base aid ratio is the factor in the ECS formula for computing the level of state support a town will receive on a per pupil basis given its ability to pay.

Base revenue refers to a town's prior year ECS payment excluding any density supplement.

Cap refers to a provision enacted by the legislature that sets a ceiling on the annual increase in a town's ECS grant payment. The present cap varies with a town's wealth up to a maximum allowable increase of 6 percent.

Cap supplement refers to additional aid provided on a proportional basis to towns entitled to larger increases than permitted under current cap provisions in FY 02 and FY 03.

Density supplement is an additional payment made under the ECS grant program to towns with higher than average population density.

Entitlement aid refers to the amount of annual ECS funding a town actually receives; a town's final grant payment after all components of the formula are calculated and all special adjustments are applied.

Equalized net grand list (ENGL) means the average of a town's net grand lists for two, three, and four years prior to the fiscal year in which an ECS grant is to be paid, which have been equalized by the Office of Policy and Management to reflect each town's taxable real and personal property at 100 percent fair market value.

Formula aid refers to the amount of funding a town is targeted to received under the ECS formula before any special adjustments are applied and excluding any density supplement; it is the sum of a town's base aid, supplemental aid and regional bonus, if any.

Foundation means the amount of money on a per pupil basis established by the state as the minimum necessary to provide an adequate education for an average student.

Hold harmless refers to provisions enacted by the legislature to ensure towns do not suffer an ECS aid decrease from one year to the next.

LEP count means the number of children in a town with limited English proficiency who are not served by mandatory bilingual education programs.

Mastery count is the total number of resident students in a town times its average mastery percentage (see above definition).

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Minimum Expenditure Requirement (MER) refers to the state mandated lower limit for regular program education spending by a school district.

Need students means the sum of the number of resident students of the town for the school year, weighted for three student characteristics generally recognized to increase educational need – poverty, remedial level performance on standardized proficiency tests, and limited English proficiency.

Regional bonus means an additional payment under the ECS formula made to towns that are members of regional school district.

Regular program expenditures is a measure of a town's total current educational expenditures excluding special education costs and payments made with state and federal grant funds except for ECS grants and federal impact aid.

Resident student count means children enrolled at a town's expense in public school grades pre-kindergarten through 12, weighted to take into account an extended school year and tuition free summer school and giving sending and receiving districts shared credit (half each) for pupils who participate in the statewide interdistrict ("OPEN Choice") program.

Special adjustments refers to the various provisions enacted by the legislature to limit the amount a town's ECS grant can change from year to year regardless of the funding amount computed under basic formula components.

State guaranteed wealth level (SGWL) is amount of local wealth, established by the state, at or above which towns are deemed able to pay for all educational costs without state support and below which the state will pay a town a portion of the funds needed to provide an adequate education.

Stoploss refers to provisions enacted by the legislature that establish a maximum amount a town's ECS grant can decrease from year to year.

Supplemental aid means additional financial assistance provided to towns based on their proportions of children who are poor or who perform at the remedial level on state mastery tests.

Target aid is another term for formula aid.

TFA count means the number of children in a town aged 5 through 17 who are eligible for the Temporary Family Assistance (TFA) program.

Town wealth is a measure of ability to pay for education based on a town's income-adjusted property wealth (AENGL, see above definition) and its total and student population.

Appendix C

SUMMARY OF MAJOR LEGISLATIVE CHANGES TO ECS FORMULA		
Year	***Statutory Change***	***Impact***
1988	• ECS program enacted to replace GTB system over 4 year period beginning FY 90	– State support based on minimum spending level (foundation) rather than guaranteed tax base – Makes state aid levels more predictable
1989	• Formula's town wealth factor lowered from (from 2 x median town amount to 1.8335) • Minimum aid provisions decreased • Hold harmless provision enacted	– State support reduced (in proportion to town wealth) – Increases limited but towns protected from drop in aid
1990	• Wealth factor lowered again (to 1.6651) • Minimum aid provisions further decreased • Hold harmless level continued	– State support further reduced – Towns still protected from drop in aid
1991	• Minimum increase eliminated	– State support further reduced
1992	• Wealth factor lowered again (to 1.5361) • Cap established on maximum increase (2%) • Phase-in levels of minimum expenditure requirement extended	– State support further reduced – Annual increases limited regardless of greater need (e.g., higher enrollment, growth in need students) – Lower local spending requirement
1993	• Formula's foundation factor set at statutory amount ($4,800)	– State support further reduced – Foundation level disconnected from actual education spending
1995	• Foundation increased (to $5,711) • Wealth factor increased (to 1.55) • Need student definition expanded to include special education students, students with limited English proficiency • Supplemental aid factor (based on need student) added • Municipal overburden factor (density supplement) added • Hold harmless replaced with stoploss provision • Mastery bonus eliminated (replaced by new student achievement categorical grant)	– State support increased – More aid directed to districts with greater student need – More aid directed to most densely populated, urban districts – Improved student performance no longer formula factor – Decrease in local aid possible but limited
1996	• ECS grant amounts cut by specified percentage (1.02% for wealthiest towns; .56% for rest)	– State support reduced
1997	• Alternative minimum increase created for priority school districts	– More aid directed to neediest districts
1998	• Foundation increased (to $5,775) • Maximum stoploss reduced • Cap on increases raised (5%)	– State support increased – Amount local aid can decrease further limited – Larger annual increases permitted for capped towns
1999	• Foundation increased (to $5,891) • Measure of need students revised to freeze poverty factor • Wealth factor revised to establish minimum base aid • Hold harmless provision reestablished • Cap raised (to 6%) and scheduled for elimination in FY 04 • Minimum expenditure requirement revised	– State support increased – More aid directed to poorest communities – Higher spending required if enrollments rise – ECS funding provided to all towns regardless of wealth – Towns again protected from drop in aid – Capped towns permitted larger increases and no upward limit after FY 03
2000	• Bonus factor for regional districts increased (from $25 to $100 per pupil, in proportion to grades in region)	– More aid directed to regional districts
2001	• Supplemental aid for capped towns added for two years ($25 million total in FY 02, $50 million in FY 03) • Minimum increase provision ((1.68% in FY 02, 1.2% in FY 03) established for two years	– State support increased – Additional aid directed to capped towns – All towns guaranteed increase over prior year

APPENDIX D

FY 03 Grants Under the Program Review Committee's Recommendation

Town	*FY 02 ECS Final Grant (1)*	*Anticipated FY 03 ECS Grant under current law (2)*	*FY 03 ECS Grant under PRI Proposal (Greater of Col. 1 or Col. 2) (3)*
Andover	1,509,470	1,676,629	1,676,629
Ansonia	11,218,572	11,760,564	11,760,564
Ashford	3,036,660	3,281,103	3,281,103
Avon	311,777	578,099	578,099
Barkhamsted	1,176,454	1,170,900	1,176,454
Beacon Falls	3,010,322	3,103,358	3,103,358
Berlin	3,663,534	4,160,735	4,160,735
Bethany	1,473,105	1,536,916	1,536,916
Bethel	7,138,053	7,104,164	7,138,053
Bethlehem	1,099,675	1,169,887	1,169,887
Bloomfield	2,371,576	2,490,764	2,490,764
Bolton	2,209,545	2,394,776	2,394,776
Bozrah	1,027,142	1,022,293	1,027,142
Branford	1,250,097	1,321,329	1,321,329
Bridgeport	136,818,542	140,249,047	140,249,047
Bridgewater	75,546	92,679	92,679
Bristol	31,683,759	33,045,468	33,045,468
Brookfield	1,164,557	1,159,060	1,164,557
Brooklyn	5,786,337	5,759,022	5,786,337
Burlington	3,107,930	3,355,288	3,355,288
Canaan	181,707	184,155	184,155
Canterbury	4,199,372	4,179,548	4,199,372
Canton	2,204,176	2,426,852	2,426,852
Chaplin	1,619,836	1,612,189	1,619,836
Cheshire	7,348,609	7,313,918	7,348,609
Chester	590,950	588,160	590,950
Clinton	5,743,936	5,716,820	5,743,936
Colchester	9,728,469	10,723,677	10,723,677
Colebrook	263,530	324,396	324,396
Columbia	2,001,793	2,080,651	2,080,651
Cornwall	28,918	50,914	50,914
Coventry	7,418,066	7,492,707	7,492,707
Cromwell	3,081,286	3,217,597	3,217,597
Danbury	14,161,519	15,076,390	15,076,390
Darien	379,724	752,260	752,260
Deep River	1,491,196	1,498,311	1,498,311
Derby	5,108,007	5,540,015	5,540,015
Durham	3,076,168	3,200,104	3,200,104
East Granby	525,075	636,536	636,536
East Haddam	2,878,247	2,929,606	2,929,606
East Hampton	5,925,625	5,952,965	5,952,965
East Hartford	26,941,033	30,338,890	30,338,890
East Haven	15,132,798	16,256,239	16,256,239
East Lyme	5,944,240	6,309,986	6,309,986
East Windsor	3,953,672	4,206,304	4,206,304
Eastford	929,409	925,022	929,409
Easton	194,778	307,121	307,121
Ellington	7,504,348	7,587,545	7,587,545
Enfield	22,894,680	22,786,094	22,894,680
Essex	173,177	229,863	229,863
Fairfield	1,388,821	1,988,825	1,988,825

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Town	FY 02 ECS Final Grant (1)	Anticipated FY 03 ECS Grant under current law (2)	FY 03 ECS Grant under PRI Proposal (Greater of Col. 1 or Col. 2) (3)
Farmington	474,672	836,401	836,401
Franklin	698,017	694,722	698,017
Glastonbury	3,165,304	3,677,159	3,677,159
Goshen	119,206	149,024	149,024
Granby	3,339,861	3,732,498	3,732,498
Greenwich	931,827	1,739,138	1,739,138
Griswold	9,208,415	9,164,945	9,208,415
Groton	22,275,123	22,169,489	22,275,123
Guilford	2,717,306	2,704,479	2,717,306
Haddam	369,328	585,695	585,695
Hamden	14,640,699	16,777,591	16,777,591
Hampton	1,177,704	1,186,063	1,186,063
Hartford	160,649,688	162,565,588	162,565,588
Hartland	1,187,146	1,181,541	1,187,146
Harwinton	2,311,647	2,300,734	2,311,647
Hebron	5,150,264	5,250,945	5,250,945
Kent	92,218	114,222	114,222
Killingly	13,045,069	13,079,746	13,079,746
Killingworth	1,977,102	1,929,645	1,977,102
Lebanon	4,496,840	4,475,611	4,496,840
Ledyard	10,209,066	10,160,872	10,209,066
Lisbon	3,352,797	3,336,970	3,352,797
Litchfield	867,030	1,087,715	1,087,715
Lyme	50,852	84,866	84,866
Madison	744,101	947,915	947,915
Manchester	23,920,517	24,692,715	24,692,715
Mansfield	8,372,503	8,511,186	8,511,186
Marlborough	2,654,220	2,641,690	2,654,220
Meriden	40,448,722	43,174,573	43,174,573
Middlebury	282,233	376,026	376,026
Middlefield	1,483,799	1,658,057	1,658,057
Middletown	10,675,284	12,154,597	12,154,597
Milford	9,514,660	9,468,841	9,514,660
Monroe	5,502,625	5,476,648	5,502,625
Montville	10,301,099	10,394,648	10,394,648
Morris	583,574	584,520	584,520
Naugatuck	24,779,286	24,661,704	24,779,286
New Britain	53,906,442	58,537,088	58,537,088
New Canaan	345,712	716,532	716,532
New Fairfield	3,891,511	3,873,141	3,891,511
New Hartford	2,516,823	2,624,673	2,624,673
New Haven	120,560,079	122,545,576	122,545,576
New London	19,337,840	19,774,693	19,774,693
New Milford	10,084,016	10,228,679	10,228,679
Newington	8,024,037	8,882,669	8,882,669
Newtown	3,802,432	3,784,482	3,802,432
Norfolk	339,026	337,425	339,026
North Branford	6,809,581	6,777,435	6,809,581
North Canaan	1,765,331	1,756,997	1,765,331
North Haven	1,657,773	1,650,674	1,657,773
North Stonington	2,569,491	2,557,361	2,569,491
Norwalk	8,266,141	8,338,830	8,338,830
Norwich	25,653,482	26,803,577	26,803,577
Old Lyme	242,772	368,083	368,083
Old Saybrook	296,598	400,231	400,231
Orange	442,059	612,782	612,782
Oxford	3,766,533	3,748,753	3,766,533

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Town	FY 02 ECS Final Grant (1)	Anticipated FY 03 ECS Grant under current law (2)	FY 03 ECS Grant under PRI Proposal (Greater of Col. 1 or Col. 2) (3)
Plainfield	13,079,007	13,017,265	13,079,007
Plainville	7,750,079	8,229,081	8,229,081
Plymouth	8,103,718	8,126,434	8,126,434
Pomfret	2,360,430	2,444,795	2,444,795
Portland	3,044,672	3,274,886	3,274,886
Preston	2,527,683	2,519,102	2,527,683
Prospect	4,109,172	4,090,257	4,109,172
Putnam	6,777,207	6,995,267	6,995,267
Redding	193,291	345,163	345,163
Ridgefield	566,942	1,022,364	1,022,364
Rocky Hill	2,174,508	2,171,521	2,174,508
Roxbury	53,707	88,707	88,707
Salem	2,577,529	2,624,813	2,624,813
Salisbury	74,258	114,133	114,133
Scotland	1,243,075	1,237,206	1,243,075
Seymour	7,614,312	8,112,184	8,112,184
Sharon	64,412	89,277	89,277
Shelton	4,420,640	4,400,109	4,420,640
Sherman	59,402	119,121	119,121
Simsbury	1,905,649	1,930,169	1,930,169
Somers	4,282,189	4,388,553	4,388,553
South Windsor	8,378,675	9,133,775	9,133,775
Southbury	858,029	1,063,620	1,063,620
Southington	15,337,543	15,504,997	15,504,997
Sprague	2,266,743	2,263,964	2,266,743
Stafford	8,346,406	8,307,005	8,346,406
Stamford	4,873,122	5,353,655	5,353,655
Sterling	2,526,730	2,600,935	2,600,935
Stonington	1,831,371	1,822,725	1,831,371
Stratford	11,346,169	13,548,019	13,548,019
Suffield	3,300,260	3,728,633	3,728,633
Thomaston	4,286,017	4,445,264	4,445,264
Thompson	6,415,909	6,385,622	6,415,909
Tolland	7,731,821	8,113,692	8,113,692
Torrington	18,473,616	19,059,005	19,059,005
Trumbull	1,988,639	2,138,741	2,138,741
Union	200,188	199,243	200,188
Vernon	14,931,248	14,952,503	14,952,503
Voluntown	2,226,291	2,253,006	2,253,006
Wallingford	17,819,732	18,033,162	18,033,162
Warren	55,517	63,887	63,887
Washington	109,492	155,867	155,867
Waterbury	85,221,570	90,120,069	90,120,069
Waterford	340,435	615,044	615,044
Watertown	9,780,685	9,791,503	9,791,503
West Hartford	6,488,793	8,752,931	8,752,931
West Haven	34,241,574	34,897,776	34,897,776
Westbrook	195,745	262,048	262,048
Weston	262,733	468,631	468,631
Westport	490,437	961,689	961,689
Wethersfield	2,675,583	3,744,436	3,744,436
Willington	3,152,797	3,137,913	3,152,797
Wilton	342,110	728,769	728,769
Winchester	6,646,668	6,615,291	6,646,668
Windham	19,908,719	20,374,451	20,374,451
Windsor	7,632,192	8,126,172	8,126,172
Windsor Locks	2,092,359	2,611,705	2,611,705

Town	*FY 02 ECS Final Grant (1)*	*Anticipated FY 03 ECS Grant under current law (2)*	*FY 03 ECS Grant under PRI Proposal (Greater of Col. 1 or Col. 2) (3)*
Wolcott	10,047,208	10,574,367	10,574,367
Woodbridge	300,817	429,686	429,686
Woodbury	570,907	679,866	679,866
Total	**1,458,823.631**	**1,518,395,749**	**1,519,556,607**

Appendix E

SDE Categorical Grants Active Between FY 97 and FY 00*					
Grant Name	Statutory Reference (C.G..S. Section)	Total Grant Payments**			
		FY 97	FY 98	FY 99	FY 00
Adult Education	10-67 – 10-73d	11,615,857	13,058,527	15,237,742	15,133,012
Bilingual Education	10-17a – 10-17g	2,200,000	2,226,000	2,252,000	2,252,000
Coordinated Education - DSS		588,000	588,000	588,000	588,000
E.E.R.A - Project Concern	10-266j	1,213,398	1,106,866	-	-
Early Reading Success	10-265f	-	-	19,604,000	20,438,496
Ed Tech. Infrastructure Grant	10 262n	4,447,539	4,350,479	12,068,497	9,534,703
Extended School Hours	10-266t	1,248,000	1,277,952	2,925,845	3,262,075
Family Resource Center	10-4o	2,021,500	4,000,000	6,032,500	6,000,000
Gen. Improvements To School Bldgs	10-265	-	-	12,488,302	10,175,022
Hartford Public School Audit	S. A. 99-10	-	-	-	600,000
Hartford Public School Monitors	(in budget act)	-	-	400,000	-
Head Start Services	10-16n	4,079,500	5,100,000	5,100,000	5,052,021
Institute For Teaching And Learning	10-220a(c),(d)	289,749	279,750	284,000	663,778
Interdistrict Cooperation	10-74d	6,709,972	10,280,021	10,974,150	14,428,637
Lighthouse Schools	10-266cc	-	100,000	300,000	600,000
Magnet Schools	10-264h, 264i, 246l	7,595,229	9,838,412	15,619,439	19,244,357
Middle School Math/Science Mastery Pilot	S.A. 99-10	-	-	-	200,000
Nonpublic Health Services	10-217a	3,063,978	3,148,709	3,272,139	3,441,371
Omnibus Grant	(in budget act)	2,798,305	2,655,665	2,712,420	2,699,141
Open Choice Program	10-266aa	-	-	3,139,989	5,450,000
Other State Grants		100,000	525,000	595,365	400,000
Paraprofessional Teacher Training		-	-	-	14,477
Primary Mental Health	10-76t -- 76w	264,337	265,781	241,998	258,577
Priority School Districts	10-266p	16,125,000	18,499,999	19,000,487	20,336,250
School Accountability	10-256l,265m	-	-	-	300,000
School Library Books	10-265i	-	-	2,970,000	3,165,530
School To Work Opportunities	10-20a – 20f	250,000	245,200	246,653	250,000
SDE School Readiness (Early Childhood)	10-16o – 16q	-	17,217,498	34,495,625	38,008,792
Special Education-Equity/Excess Cost (District-based)	10-76g(c)	11,500,000	11,500,000	11,500,000	11,500,000
Special Education-Excess Cost (Student-based)	10-76g	13,873,631	15,247,487	16,873,885	19,902,755
Special Education-Foster Care Placements	10-262m	-	-	500,000	-
Special Education-Medicaid Coordination	10-76d(a)(2) -- (6)	6,441,781	5,065,810	6,353,834	-
Special Education-State Agency Placements	10-76d(e), 10-76g, 10-253	8,517,769	8,112,281	24,988,571	26,860,354
State School Breakfast Program	10-266w	1,454,384	1,525,409	1,562,177	1,571,975

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SDE Categorical Grants Active Between FY 97 and FY 00*					
Grant Name	Statutory Reference (C.G..S. Section)	Total Grant Payments**			
		FY 97	FY 98	FY 99	FY 00
Student Achievement Program	10-262l	998,238	500,000	1,000,000	1,500,000
Training Paraprofessionals	10-155(i)	323,364	287,079	187,145	53,567
Transitional School Districts	10-263c – 263d	-	-	3,000,000	2,500,000
Transportation - Nonpublic	10-280a, 281	4,094,565	4,255,138	4,425,849	4,512,907
Transportation - Public	10-54, 66ee, 97, 264i, 266m, 273a, 277	36,503,172	39,187,014	41,242,852	42,800,371
Vocational Agriculture - Operating	10-64 – 10-66	2,515,000	2,567,800	2,621,700	2,621,700
Young Parents Program	10-74c	233,000	238,592	259,080	259,080
Youth Service Bureaus	10-19m – 19p	2,704,968	2,691,021	2,703,990	2,784,556

* Excludes ECS grant, school construction grant, and grants paid only to entities other than school districts (e.g., charter schools, RESCs)

** Includes payments made to entities other than school districts

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