

# SEEDS UNPLANTED

*The Recent History of Education  
Funding in Rhode Island*

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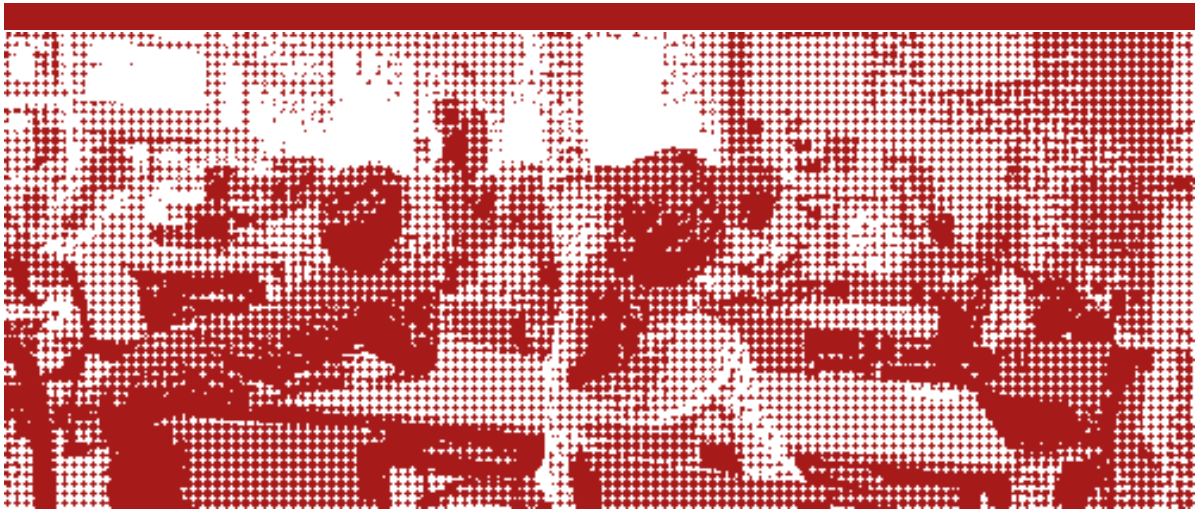
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# 1 *Summary*

Education funding in Rhode Island has long been a contentious and deeply complex issue, shaped by the interplay of state and municipal tax policies, economic fluctuations, and political priorities. The challenge of funding public education in the state reflects broader societal tensions between equity and efficiency, local control and state responsibility, and short-term political gains versus long-term systemic reform. Rhode Island's reliance on local property taxes as a primary source of education funding has created significant disparities between wealthy and less affluent districts, perpetuating a cycle of inequity that has proven rather durable.

From the financial crises of the 1990s, which led to sweeping cuts in education funding, to the implementation of the 2010 funding formula, which aimed to redistribute resources more equitably, the state's policies have frequently prioritized immediate political and fiscal concerns over the long-term needs of its education system. For example, the 2007 Education

*Education funding in Rhode Island has long been a contentious and deeply complex issue.*

Equity and Property Tax Relief Act sought to reduce reliance on property taxes and establish a more equitable funding system, but its implementation was thwarted by the Great Recession and subsequent budget constraints. Similarly, the Guaranteed Student Entitlement (GSE) program, proposed in the early 1990s as a way to ensure a baseline level of funding for all students, was abandoned when the threat of judicial oversight was removed, highlighting the fragility of reform efforts in the face of political and economic pressures.

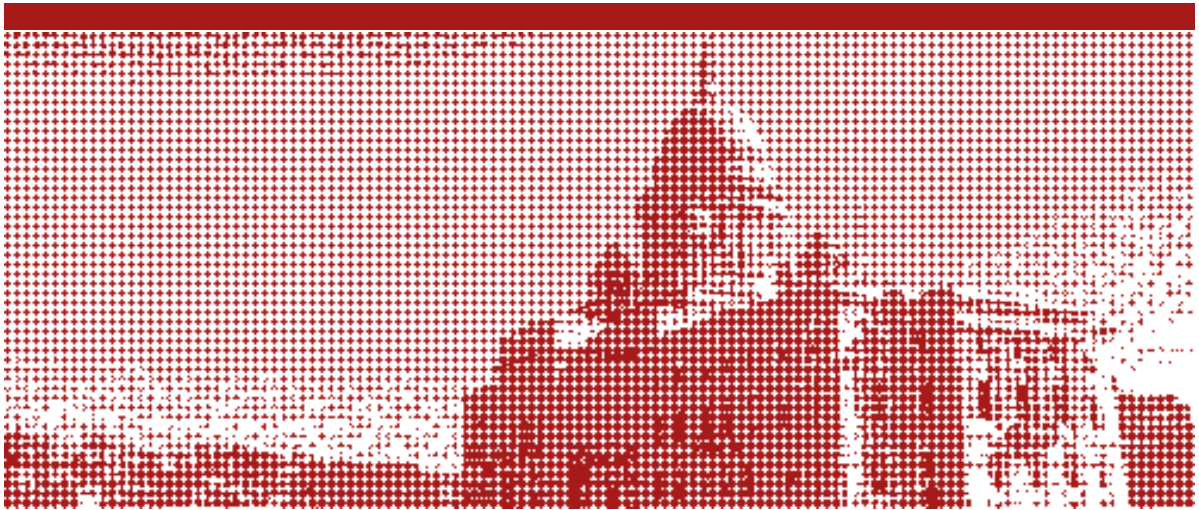
This study explores the history of education funding in Rhode Island, with a particular focus on the tension between short-term fixes and long-term reform. It examines how the state's reliance on property taxes,

coupled with a lack of sustained commitment to equitable funding, has created persistent disparities between districts. It also considers the role of federal incentives, judicial oversight, and political maneuvering in shaping the state’s education funding policies. By analyzing the successes and failures of past efforts,

this study aims to shed light on the challenges of achieving true educational equity in Rhode Island and to offer insights into the kind of systemic reforms that will be necessary to ensure that all students have access to the resources they need to succeed.

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## 2 *Prelude: Financial Crisis in the 1990s*.....

Hours after his January 1, 1991, inauguration, Governor Bruce Sundlun (1991-1995) held a press conference. Due to a “banking emergency,” he announced “immediate [closure] of 45 state-chartered banks and credit unions until they had arranged Federal insurance for their deposits,”<sup>1</sup> as these institutions were left uninsured after the Rhode Island Share and Deposit Indemnity Corp (RISDIC) was placed into conservatorship. The closures froze the accounts of approximately 300,000 depositors—roughly one-third of the state’s population—and immobilized 10% of all bank deposits in Rhode Island<sup>2</sup>. Businesses and residents faced severe financial disruptions, further destabilizing an already fragile economy.

In the wake of RISDIC’s failure, the state undertook regulatory and political reforms to restore confidence in its financial system. However, the economic fallout reverberated across public services, including education.

The state faced a severe budget shortfall due to the economic downturn and the costs associated with resolving the crisis.

*The 1990s began with a crisis, and the inevitable austerity.*

To address this, the government implemented austerity measures, including cuts to public services and increases in taxes. One income tax change of the time was progressive in nature, but it was soon abandoned, and Governor Sundlun refused to consider other income tax changes. The durable changes, in sales and property taxes and the service cuts themselves, disproportionately affected low-income residents and exacerbated disparities. This tax history will be described in Chapter 5. For now, we turn to the education funding formula, the guide to allocating state aid to local schools.



### 3 *Pre-2000s Funding Formula*.....

With the Foundation Program Act of 1955 and the Foundation Level School Support Act of 1960, Rhode Island implemented its first education funding formula to address disparities in community resources. These measures established a percentage-equalizing allocation system for state aid, which reimbursed municipalities for education expenditures based on a sliding scale linked to property wealth. Wealthier communities received a smaller reimbursement percentage, while poorer communities received a higher one.

Although the reimbursement system was designed to be equalizing for poor and wealthy districts, it was somewhat compromised from the beginning. The 1960 law created a minimum state share of 25%, regardless of the wealth of each community. This minimum had the effect of increasing the aid provided to wealthy districts and lowering the aid provided to

communities with greater need. The minimum was raised to 30% in 1964 and later lowered to 28% in 1983. In 1989, there were nine communities—roughly one quarter of the state’s school districts—receiving the minimum 28% share. Had the minimum share not existed, five of these communities would have received a share ratio of less than 5%.<sup>1</sup>

Although the formula provided predictability, the minimum meant that state funding still disproportionately benefited wealthier municipalities. Some proponents of the system argued that it allowed districts to increase expenditures at their own discretion. In an interview, Gary Sasse, the director of the Rhode Island Public Expenditure Council (RIPEC) in the 1990s, said that the open-ended formula allowed districts to spend as much as they wanted, knowing that a certain percentage of it would be matched.<sup>2</sup> Wealthy areas,

bolstered by rising property tax revenues, consistently increased their education spending and secured higher reimbursements. Meanwhile, poorer municipalities, lacking tax capacity, struggled to keep pace. To address these disparities, policymakers introduced “categorical” education aid programs, such as vocational and special education, to direct additional funds to under-resourced areas.

In the 1980s, Governor Edward DiPrete pushed to increase the state’s share of education funding. The 1985 Omnibus Property Tax Relief and Replacement Act, signed in his first year in office, pushed the total state share of education funding up to 50%. Due to both the speed with which the state achieved this goal and a burgeoning national economy, the DiPrete administration subsequently extended its pledge to 60%, pushing for an additional \$100 million in education aid to cities and towns. This 60% goal, while written in a non-binding fashion, was codified in state law.<sup>3</sup> Unfortunately, the ambition collided with the combined effects of a severe nationwide recession and the state’s bank failure crisis (see Chapter 2) and was repealed in 1996.

DiPrete’s successor, Bruce Sundlun, faced that fiscal crisis on his inauguration day and moved to cut state spending immediately, refusing to consider a tax hike. Under Sundlun, the state reduced its minimum guarantee to 25% in 1993, then again to 9% in 1994, threatening to do away with it entirely. The Sundlun administration’s removal of the minimum state share, which had prevented the formula from equalizing aid between richer and poorer communities, had a moderately

progressive effect, but only in the context of overall savage cuts to school budgets. In addition to abandoning the DiPrete funding commitment, the state lowered its share of teacher pension costs from 60% to 40% and “deferred” millions in pension funding to districts. Most importantly, the General Assembly “capped” funding, providing for a single pro rata reduction to all districts’ aid amounts if the legislature did not fully fund the program.<sup>4</sup> The DiPrete administration had budgeted \$370 million for local aid in 1991, but the Sundlun administration only delivered \$282 million, a cut of 24%.<sup>5</sup> In other words, in June 1990, school departments across Rhode Island

***School districts only learned about a 24% cut halfway through the 1991 budget year.***

budgeted based on one number for state aid, only to receive 24% less, a cut they only learned about when the year was half over. Although the consequences of this flat-rate cut were dire for all the state’s schools, urban districts, which relied much more on state funding than did suburban districts, were hit disproportionately hard. All told, the percentage of school operations aid funded by the state dropped from 52.3% in 1991 to 38.1% in 1992.<sup>6</sup>

## **Reform Efforts of the Early 1990s**

In 1994, the cities of Pawtucket, West Warwick, and Woonsocket mounted a legal challenge against the state, alleging that its school financing system violated the education and equal protection clauses of

the state constitution. The case was driven largely by the 1991 decision to reduce operations aid for all districts by the same percentage — regardless of district wealth. This meant, figuratively, that “East Greenwich lost about a dollar and a half, Pawtucket lost about \$10 million,” according to attorney Stephen Robinson, who represented the plaintiffs in court.<sup>7</sup> In Superior Court, Judge Thomas Needham found in the districts’ favor. However, the decision was overturned the next year by the Rhode Island Supreme Court, which found not only that the Rhode Island Constitution guaranteed no right to an “equal, adequate, and meaningful education,” but also that it gave the legislature “unreviewable” authority over all matters related to education. Chief Justice Victoria Lederberg’s decision was based not just on the language of the constitution, but on the court’s belief that the framers of the 1842 state constitution, legislation passed shortly thereafter, and the recent 1986 state constitutional convention showed no intent to enshrine such a right. The court’s extrication of itself from questions of educational equity effectively sealed off the judiciary as a venue for future battles over educational equity.

Nationally, *Pawtucket et al v. Sundlun* was far from the only state constitutional dispute over education in the preceding decades. After *San Antonio Independent School District v. Rodriguez*, a 1973 U.S. Supreme Court case focused on inequity in property tax-based school financing in which the court found no fundamental right to an equal education in the U.S. Constitution, there were numerous attempts to enshrine such a right in state constitutions across

the country.<sup>8</sup> Decisions in Kentucky, California, Texas, and New Hampshire forced the reorganization of state departments of education, when those states were found to have violated the education provisions of their state constitutions.

In Massachusetts, *McDuffy v. Secretary of the Executive Office of Education* had

***The court’s extrication of itself from questions of educational equity effectively sealed off the judiciary as a venue for future battles over educational equity.***

earlier brought a challenge similar to that in *Pawtucket et al* and *San Antonio Independent School District*, alleging that the system of school finance was in violation of the education clause in the Massachusetts Constitution. Unlike those others, the Massachusetts Supreme Court found in 1993 that the state’s education clause did impose an enforceable obligation on that state. The court did not order equalized spending, leaving the Massachusetts legislature to devise a new system that would better serve school districts with lower property wealth. Just three days later, the Massachusetts Education Reform Act of 1993 was passed. Designed over the previous year leading up to the decision, the MERA, known locally as the “Grand Bargain,” transformed education in Massachusetts, installing accountability reforms in exchange for \$2 billion in additional state funding over the following decade.<sup>9</sup>



## Needham's Decision and the Guaranteed Student Entitlement

The complete rework of the education system in Massachusetts, prompted by the McDuffy decision and the “Grand Bargain” of the Massachusetts Education Reform Act, came in the summer of 1993, just as the Rhode Island plaintiffs in *Pawtucket et al.* were arguing their case in Superior Court. The result across the border provided motivation and inspiration for both the Rhode Island plaintiffs and for legislators seeking to find a solution to the widely-recognized failures of the education financing system. Some efforts to that end were already underway. After the results of the 21st Century Education Commission, a 1991 legislative commission chaired by Sasse, supported a “Guaranteed Student Entitlement,” Governor Sundlun ordered Commissioner of Elementary and Secondary Education Peter McWalters to design a new plan for education financing based on the commission’s findings. The GSE, as it was known, would be based on the cost of educating a child and would pay for this base level by instituting a statewide property tax rate to all cities and towns, with the state paying for any difference between the collections and the cost of the program. Advocates claimed that equity in education should mean that “a child’s education shall not be a function of district wealth” but rather that “the quality of education provided must be a function of statewide wealth.”<sup>10</sup> When Judge Needham was told that such a plan was in the works, with the intent to go into effect in FY 1995, he said, “From what I’ve been listening to, there may very well be one year from now

a program in place that the commissioner could live with,” additionally implying that the case might become moot. However, Robinson remained skeptical that the legislature would pass the legislation, leading the *Pawtucket v. Sundlun* plaintiffs to show limited support for the initiative.<sup>11</sup>

As they awaited Judge Needham’s decision, McWalters introduced his plan in January 1994. The price tag on the initial plan was \$265.5 million in additional annual state aid to school districts, divided into roughly equal parts of property tax relief and education funding. The latter would come with strings attached: statewide standards that would allow the RI

***A reform bill came together, combining better funding and property tax reduction, but it was expensive.***

Department of Education (RIDE) to intervene if districts failed to meet them. However, the plan was vague on the means of financing, alluding to potential increases in the income tax or niche sales taxes on clothes and professional services. Due to the high cost of the plan, it was recognized by numerous state leaders, including GSE proponent McWalters, that it would have to be implemented over several years — likely three or four — with roughly \$50 million in state aid being added each year.<sup>12</sup>

When Judge Needham’s ruling came in February, however, legislators were confronted with a much more difficult task: finding the entire \$265 million in a single year. Even the education portion of the bill, costing around \$130 million, would require far more than the patchwork of tax

increases the Governor had planned. This half-a-loaf number became a main goal of education advocates as allocating the full amount seemed increasingly unlikely.

GSE proponents were not dismayed by a court order to institute equity in the school financing system, something they had been seeking regardless of the court's decision. Governor Sundlun announced soon after Needham's decision that he would not be appealing because the opinion was "consistent with the law on this subject throughout the United States."<sup>13</sup> The Board of Regents also voted not to appeal, with some Regents, like Fred Lippitt and Jo Eva Gaines, openly praising the decision and saying "We're glad we lost."<sup>14</sup> Indeed, Needham supported the GSE as a potential solution, stating that it, "if implemented, would provide a basis for one to conclude the constitutional mandate of equal opportunity for all citizens would be met."<sup>15</sup> To Sundlun, the Regents, Needham, and some members of the legislature, the GSE legislation would be the Rhode Island version of the "Grand Bargain" in Massachusetts.

However, the prospect of tackling the problem in a single year was daunting. Sundlun delayed announcing the financing portion of the plan until April, as many leaders were skeptical that such a major reform could be rushed through. Sundlun remained confident, however, that a plan could be made, saying that he thought "it would be wrong for the General Assembly to push GSE off until next year."<sup>16</sup> There was resistance within the legislature. House Majority Leader George Caruolo claimed that they could "reconfigure the current school formula in such a way that it would not be unconstitutional," despite the

fact that Judge Needham had thrown the entire statute out.<sup>17</sup> Other legislators, even some from communities that stood to get major increases in state aid, sought to appeal the decision, a move they believed would provide them with more time to come up with a solution.

When Sundlun finally released his financing plan in early April of 1994, the education funding increase was just \$49 million, funded in part by a new tax on lottery winnings.<sup>18</sup> The number was not only a mere fraction of the original \$265 million GSE proposal, it was a far cry even from the half-loaf \$130 million that some GSE advocates were hoping for, leading State Representative Paul Crowley, a longtime education advocate who had pushed for both the full GSE and half-loaf

*The plan the governor put out was barely a down payment on an adequate GSE.*

education plan, to say "It's a misnomer to call (Sundlun's plan) GSE. It's not close to it."<sup>19</sup> Furthermore, the funds would be distributed through the old reimbursement formula that Needham had already declared unconstitutional. Sundlun told legislators that he did not believe it would be possible to create a full plan during the legislative session, but his increase "demonstrates good-faith effort by the executive and legislative branches toward correcting the unconstitutionality."<sup>20</sup>

Meanwhile, Robinson and the plaintiffs were unconvinced that the plan would be enough for Judge Needham, calling instead for immediate relief. The "real" GSE bill with a \$265 million price tag, as well as a

House task force proposal to act on the education portion of the GSE, were left to die on the vine, ignored both by Governor Sundlun and the House leadership. Sundlun's plan, which provided significant increases in aid to the state's urban school districts, was enacted, despite critics wondering how the state would continue to use "a formula already found unconstitutional."<sup>21</sup> When Representative Crowley reached out to Governor Sundlun's office in June 1994 to discuss the GSE, he was rebuffed by the Governor's staff, who told him "there was no need to meet."<sup>22</sup>

Sundlun would lose the 1994 Democratic Primary to Myrth York, who then lost the general election to Republican Lincoln Almond. With the election of Almond, no friend to the GSE, and the Supreme Court's taking of an appeal to Needham's *Pawtucket* decision initiated by Warwick Senator John Revens, the prospects for a Rhode Island version of the Massachusetts Grand Bargain were ended.<sup>23</sup> In his interview for this history, Caruolo said that there was never a sense that the state would be able to pay for such an expensive program.<sup>24</sup>

## Comparing Massachusetts and Rhode Island

The language about educational support in the Rhode Island Constitution is similar to that in the Massachusetts Constitution, or even stronger. The latter states, "It shall be the duty of legislatures and magistrates, in all future periods of this commonwealth, to cherish the interests of literature and the sciences, and all . . . public schools and

grammar schools in the towns,"<sup>25</sup> while the Rhode Island Constitution states, "It shall be the duty of the general assembly to promote public schools and public libraries, and to adopt all means which it may deem necessary and proper to secure to the people the advantages of education and public library services."<sup>26</sup> The use of "duty" in both, as well as the more active "promote" (rather than "cherish"), makes the language of the Rhode Island Constitution similarly forceful, if not more so, than that of the Massachusetts Constitution. The use of the word

*Very similar, possibly weaker, language produced the opposite result in Massachusetts, and the legislature got to work.*

"promote" was a significant focus of Judge Needham in the Superior Court's decision in favor of the plaintiffs. However, the Supreme Court overturned Judge Needham's decision based on their reading of the historical context of the Constitution's adoption. That decision found that because the framers of the 1842 Constitution lacked "intent" to establish a system that required equitable school funding, let alone mandate public schools in every town in the state, the historical context "compels the conclusion that the education clause did not intend to guarantee an 'equal, adequate, and meaningful' education." The language was deemed less important than the original intent, as inferred by the justice's own reading of contemporaneous historical documents.

Furthermore, Lederberg's decision claimed that because the 1986 Constitutional Convention produced no significant

changes to the education clause, the retention of the language also retained the context that does not recognize such a right. (According to Robinson, delegates to that Convention who advocated for better funding of public education were promised increased aid, in order to forestall them from insisting on improved constitutional language.)

Lastly, Justice Lederberg's decision claimed that there were "no judicially manageable standards" for an "equal, adequate, and meaningful education" or the policies the plaintiffs sought. It said further that this "absence of justiciable standards could engage the court in a morass" of litigation, as happened in New Jersey. The Massachusetts Supreme Court perceived the same risk, creating no strict guidelines to direct the state on how to ensure an equal education, but rather providing individual judges the ability to assess the state's progress toward such an education. This approach seems to have been successful, largely preventing the Massachusetts Court from being engaged in constant litigation. In fact, only one case regarding equity in education funding has come before the high court of Massachusetts since the McDuffy decision: *Hancock v. Commissioner of Education*, in which a superior court judge had found that the legislature had not performed its duty. While the Massachusetts Supreme Court agreed with the lower court's finding that vast inequities still existed, its opinion cited the reforms that had been enacted as proof of progress, ultimately finding that the legislature had not neglected a constitutional command. Nevertheless, Massachusetts is only mentioned twice in the Rhode Island opinion, both times in reference to Judge Needham's opinion.

While Justice Lederberg avoided discussing the Massachusetts decision in her opinion, it was prominent in the minds of policymakers in Rhode Island, according to multiple firsthand accounts. However, the plaintiffs in *Pawtucket v. Sundlun* were never contacted to discuss a potential fix or to work out a settlement, an approach taken in the constitutional battles of Massachusetts and many other states. Instead, the legislature increased appropriations for poor districts while the case was pending. Stephen Robinson, the attorney for the plaintiffs, said, "Nobody

***The Lederberg decision was based on the justice's reading of the original intent of the state Constitution, not its language.***

was talking to us, the plaintiffs. There was no discussion about settling the case, no discussion about working something out, unlike other states."<sup>27</sup> According to Caruolo, leadership in the General Assembly felt that a Rhode Island variation of the Massachusetts Education Reform Act was impossible due to Rhode Island's weaker fiscal position. Justice Lederberg, herself a member of the General Assembly until her appointment in 1993, achieved her position as the candidate backed by House leadership.<sup>28</sup>

Questioned about the lost opportunity, Caruolo pointed to the legislature's push to publish school performance statistics as an achievement during a time of intense belt-tightening for the state<sup>29</sup>. Current State Senator Sam Zurier, who was not in office in the 1990s but has worked on more recent education legislation, pointed out

that the episode was a point of divergence for the two neighboring states' education systems. The states' performance in the National Assessment of Education Progress was fairly close until 1993, when Massachusetts took a sharp turn upward.<sup>30</sup>

The fiscal crisis and battles over constitutionality of the early 1990s essentially broke the education funding formula that had been in place until then. A Maintenance of Effort (MOE) provision was introduced to ensure that no district would receive less in combined state and local aid than it had in the previous fiscal year; MOE is a typical feature in public finance through which governments are required to maintain levels of funding for certain services as a precondition of accepting an intergovernmental grant.<sup>31</sup> However, this approach soon led to even more significant inequities. "Poorer" communities froze their annual appropriations, unable to increase funding, while wealthier districts leveraged higher local tax revenues to boost school funding. Without a formula-driven distribution of state funds, an annual flat-percentage allocation system was adopted.

According to Tim Duffy, the head of the Rhode Island Association of School Committees, "We were so dysfunctional that the legislature would say, 'We're going to increase appropriation by 3%.' And everyone would get it, even if you lost students."<sup>32</sup> Representative Paul Crowley, who had pushed for the passage of the

GSE, now sought to provide equity by increasing aid in specific categorical buckets, like multilingual learners and high-cost special education, which drove money toward the urban school districts where those populations were higher. Caruolo saw this as a modification of the formula, not an abandonment of it, claiming that the state was moving money deliberately to areas where it was "most needed."<sup>33</sup>

***The collapse of the court case and the GSE led to more inequity, despite the introduction of more categorical aid.***

Though categorical aid provided some support to the neediest districts, it failed to mitigate disparities caused by wealth gaps. Districts simply received the prior year's allocation with minor increases, ignoring shifts in student populations, changing demographics, and fluctuating property values, factors that a formula might account for. Furthermore, the appropriations were prone to political pressure, as Robinson attributed an increase in a certain categorical bucket to "who had the vig in the legislature."<sup>34</sup> This arbitrary funding approach persisted for over a decade, perpetuating inequities and limiting the state's adaptability to community needs. Furthermore, it came at the cost of school budget flexibility and long term planning for districts.



## 4 *Foundations of a New Formula*.....

Though the court case was dead and the old funding formula had essentially fallen out of use, there was a consensus that school funding and the many varieties of inequity that resulted still needed to be addressed.

### **The Comprehensive Education Strategy, 1995**

In 1995, Governor Lincoln Almond and Commissioner Peter McWalters established a 60-member panel to develop the state's Comprehensive Education Strategy (CES)<sup>1</sup>. This effort culminated in the 1997 Reform Act, which incorporated some, not all, elements of the CES. The Act required districts to implement a uniform program for tracking expenditures and introduced new state categorical funds, totaling \$25.0 million in FY 1998—representing 6 percent of state

education spending that year.

The 1997 Reform Act is perhaps best remembered for the Crowley Act, named after Representative Crowley. Initially, the Act required Local Education Agencies (LEAs) to implement “progressive support and intervention strategies” for schools

*The 1997 Reform Act contained several possible interventions for struggling districts, none of which were funding.*

failing to meet Adequate Yearly Progress (AYP).<sup>2</sup> In 1998, it was expanded to include specific interventions for struggling schools and districts, such as curriculum alignment and resource oversight, but not necessarily additional funding. Notably, the Crowley Act authorized the Rhode Island Department of Education (RIDE) to take progressive control of underperforming schools, culminating in measures such as

reconstitution and restructuring. These 1997 reforms shaped the trajectory of statewide education policy for the following decade.

## Governor's Task Force, 1999

In 1999, Governor Lincoln Almond established the Governor's Task Force on Elementary and Secondary Education Finance through Executive Order 99-11, to create a fair, adequate, and affordable school funding system. This effort aimed to reduce reliance on local property taxes, a concern echoed by the Rhode Island Public Expenditure Council. In 2004, the General Assembly passed the Education and Property Tax Relief Act, with a commitment to "to promote a school finance system in Rhode Island that is predicated on student need and taxpayer ability to pay."<sup>3</sup> To fulfill this commitment, a joint committee, led by Sen. Hanna Gallo and Rep. Edith Ajello, was formed in 2006 to develop a permanent school aid formula.

## Joint Committee on Educational Adequacy, 2006

The new "Joint Committee to Establish a Permanent Education Foundation Aid Formula for Rhode Island" hired R.C. Wood & Associates, a consulting firm, which proposed a student need-based cost model with a base cost of \$9,500 per student, with adjustments for factors like poverty and special education. Concurrently, a coalition of stakeholders, including RIPEC, Rhode

Island Association of School Committees, and the Rhode Island Federation of Teachers and Health Professionals, produced a report titled "Funding Our Future" in April 2007, outlining recommendations for public education funding.<sup>4</sup>

The Joint Committee established a technical advisory group to refine these recommendations, leading to legislative proposals in 2007 and 2008 by Sen. Gallo and Rep. Ajello.<sup>6</sup> The two legislators introduced "The Education Equity and Property Tax Relief Act," H-6539 in the House and S-1112 in the Senate, in the 2007 legislative session, but no action was

*The 2006 Adequacy Study Commission led to an ambitious bill, but it went nowhere in 2007 and in 2008.*

taken on either bill.<sup>7</sup> The Act was reintroduced in both chambers in the 2008 session (H-7957 and S-2650), but once again, no full legislative action was taken on either bill.<sup>8</sup> Finally, in 2009, "The Education Adequacy Act" (S-921), introduced by Senators Gallo, DeVall, P Fogarty, DiPalma, and Sosnowski, was passed. The Act would have guaranteed that state aid cover at least 25% of public school revenue, maintained prior aid levels, and required districts to adopt standardized practices.<sup>9</sup> Implementation was to have been delayed by two years to mitigate funding reductions in some districts, but the House did not vote on the bill.<sup>10</sup>

FY 2026 FORMULA CALCULATION - 10/1/2024 ADM  
PRELIMINARY

LEAs	PK-12 RADM (October 2024 adjusted for 2025-26 PSOC)	Direct Cert	Direct Cert x Factor (October 2024 adjusted for 2025-26 PSOC)	MLL (prof 1-3)	D \$13,322	SSF Factor (Poverty Concentration Adjustment)	Student Success Factor Funding	D*H \$2,664 MLL Funding	Total Foundation
Districts:	A	B	C	A*D=E	B*G=H	C*J=K	E+H+K=L		
BARRINGTON	3,295	113	181	54	\$43,895,990	40.00%	\$963,447	\$143,878	\$45,003,315

Figure 1: The funding formula at work in Barrington, applying student population, core funding, SSF factor funding, and MLL funding. (RIDE, FY2026 Formula Calculation, January 16, 2025)<sup>5</sup>

## The New Funding Formula, 2010

Efforts to create a school funding formula in Rhode Island restarted when the state prepared to apply for the federal “Race to the Top” program, a component of the American Recovery and Reinvestment Act of 2009 intended by the Obama administration to spur reforms and equity in public education. A key prerequisite of the program was a “demonstrated use of a funding formula for equitable distribution of state aid.”<sup>11</sup> There was also a sense that “it was kind of embarrassing that the state had not formulated a concrete way to fund education that was foundation based,” according to Duffy.<sup>12</sup> Before 2010, Rhode Island was the only state in America without a foundation-based formula.

Under the leadership of State Commissioner of Elementary and Secondary Education Deborah Gist, the Board of Regents approved guiding principles for the new formula. In spring 2010, the education department held public forums to gather feedback, culminating in hearings before the State Senate Finance Committee. Following this process, the General Assembly passed the new funding formula on June 10, 2010, and the governor signed it into law later that month.

The new formula went into effect on July 1, 2011.

## How It Works

The 2010 formula has two main components: “core instruction” funding and “student success factor” (SSF) funding.<sup>13</sup> Core instruction funding identifies the primary costs of educating a student—

*The 2010 formula has two main components: “core instruction” and “student success factor” funding.*

including categories like instructional staff, student support, and administration salaries—and finds the average level of these costs in Rhode Island and surrounding states, known as the “core instruction amount per pupil.” All core categories are included at 100%, other than staff benefits, which does not include pensions and is funded at 60%.<sup>14</sup> The core instruction cost for a district is equal to its enrollment multiplied by the core instruction amount per pupil. The SSF adds 40% of the core instruction amount for each economically disadvantaged student in the district.<sup>15</sup> Figures 1 and 2 show the formula worked out for Barrington. (Follow the



**FY 2026  
State Share Calculation**

Total Foundation	% Direct Cert x Factor PK6	State Share Ratio Community (SSRC)	State Share Ratio Quadratic Mean	State Share Adjusted RIGL 16-7.2-4(a)	FY 2026 FORMULA	FY 2025 ENACTED
<b>E+H+K=L</b>				<b>M</b>	<b>L*M=N</b>	<b>L*M=N</b>
\$45,003,315	7.1%	30.5%	22.1%	22.1%	\$9,965,262	\$11,418,578

Figure 2: Continuation of Figure 1 chart showing Barrington. Barrington’s foundation funding is applied to the state share ratio, leaving the final amount of formula aid. (RIDE, FY2026 Formula Calculation)

footnote to see the calculation for the rest of the state.)

Importantly, certain essential cost categories are entirely excluded from the core calculation and, therefore, from state formula funding. These “non-core” areas include transportation; food service; building upkeep, utilities, and maintenance; charter school tuition payments; and benefits paid to current retirees. The state’s actual aid to each district is determined by the “State Share Ratio,” a calculation that combines a different metric of students living in poverty (percentage of pre-K through sixth-grade students living in poverty) with a measure of a district’s wealth per student using property values adjusted for median family income.<sup>16</sup> The two measures are averaged with a quadratic mean.

The effect of the quadratic mean over an arithmetic mean is to “enable the larger of the two components to be recognized in the allocation of state aid,”<sup>17</sup> effectively directing additional resources to districts with very high per pupil wealth, and in particular to districts, like Newport, with a large disparity between the two components (high per pupil wealth and very high poverty). Multiple accounts of the

formula creation process noted that Teresa Paiva-Weed, the Senate President at the time, represented Newport. It was considered important to the passage of the formula that Newport be prevented from becoming a significant “loser” in the new formula.<sup>18</sup>

***The quadratic mean is used to average student poverty and a community’s property wealth.***

Although the 2007 report by the Joint Committee recommended that separate weights for both multilingual learners and students in poverty should be used, the 2010 formula combined them into just one weight, based on the argument that the two factors were sufficiently correlated such that one payment could address both cost drivers. The formula has recently been tweaked to add a 20% weight for the portion of multilingual learners scoring at the lowest English proficiency levels and the proposed FY 2026 budget, which the General Assembly had yet to pass as of this writing, contains an adjustment to boost the SSF for more urban districts, but it remains short of the definition of adequacy established in 2007.

According to multiple sources, the 2010 formula was widely viewed as an imperfect answer to a festering problem. “While it’s better than not having a funding formula, it is still not going to provide equity [in] education,” said Pawtucket School Department administrator Thomas Conlon.<sup>19</sup> Zurier approved of the performance standards developed as part of the formula, which involved requiring students to receive a score of “partially proficient” on the New England Common Assessment Program, but argued that the state was not providing districts with the resources to meet them. To Zurier, this mismatch between state expectations and state support in the formula was a result of political jockeying that made the formula “kind of reverse engineered to achieve certain political goals.”<sup>20</sup> The state was midway through a scheduled five-year phase-in of an income tax cut for the wealthy (the “alternative flat tax,” see “Tax Cuts”),<sup>21</sup> so budgetary concerns were primary in the Assembly as decreased tax revenues had to be addressed. While the new formula certainly increased the state share of education funding and made the distribution of state education funds more equitable than in prior years, the 2007 Joint Committee’s goal of adequacy, which aimed to provide sufficient resources to districts such that all students in Rhode Island would receive an adequate education, was no longer part of the picture. The state’s contribution to local schools had been cut significantly in 2008, 2009, and 2010 in response to declining revenues, due to both the global financial crisis and the phase-in of tax cuts (see “Tax Cuts”). The new funding formula began to restore some of that funding, but was intended primarily to be a fairer way to divide the existing pie. The formula made

no reference to whether or not the pie was adequate.

The formula was passed in June 2010, only a few months after it was first unveiled to the Board of Regents. The result seemed insufficient to many. According to Zurier, “What you had was [an] insufficient core instructional amount, no adjustment for multilingual learners, nothing for special education but an inadequate categorical pool, and a state share distorted by the quadratic mean. You had something that looked like a funding formula.”<sup>23</sup>

In response to the inequities of the 2010 funding formula, Zurier joined Robinson to

*The new formula has less to say about adequacy than about fairness among school districts.*

mount a second lawsuit on behalf of Woonsocket. In *Woonsocket School Committee v. Chafee*, the plaintiffs argued that the state imposition of uniform graduation requirements was unconstitutional in the face of non-equitable funding, as the state continued to provide insufficient resources to many school districts. Although the lower court recognized the plaintiffs’ assessment of the extreme inequities in Rhode Island’s schools as factually correct, it maintained that the decision in *Pawtucket v. Sundlun* precluded it from taking any action to remedy the situation. Once again, Justice Lederberg’s sweeping 1995 opinion had blocked any attempt to rectify educational inequities through judicial action.

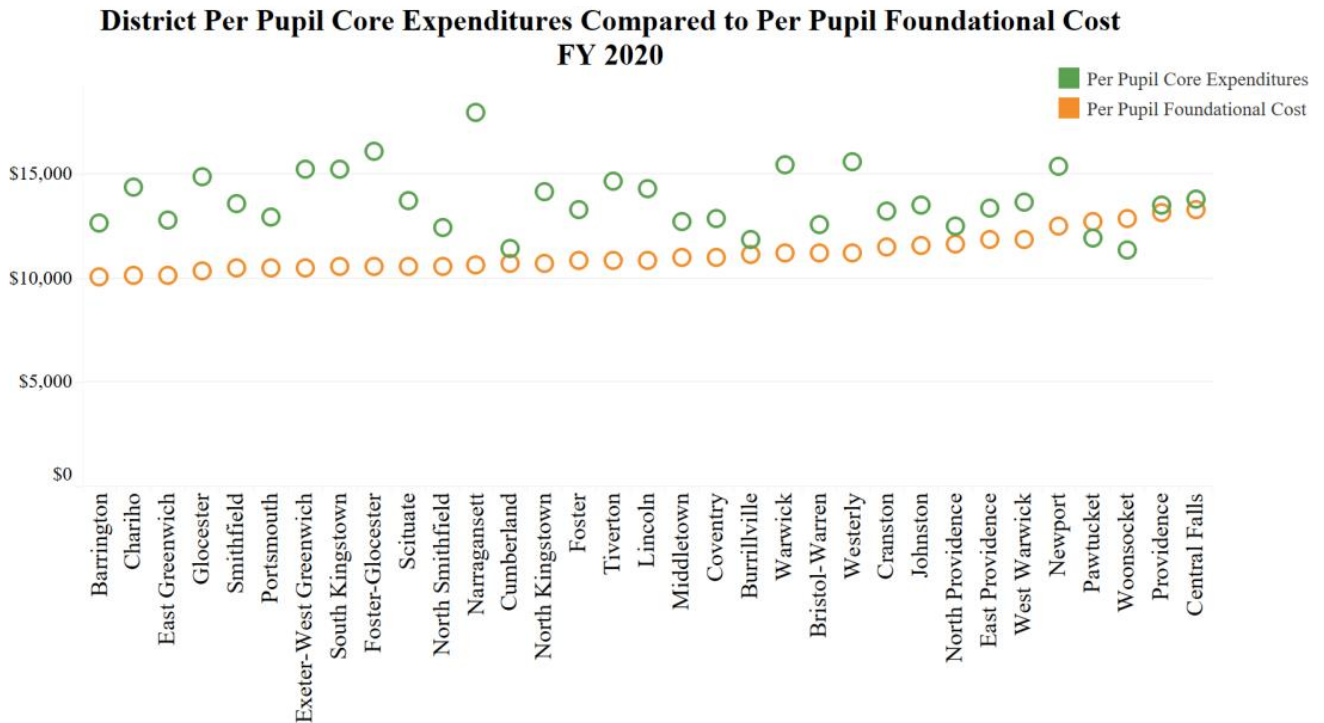


Figure 3: Although Central Falls and Providence may have per pupil expenditures on par with most other cities in Rhode Island, the foundation cost of educating their students is much higher. They barely meet this level and Pawtucket and Woonsocket are lower still. (RIPEC figure, some towns are missing due to local idiosyncrasies, see original report.)<sup>22</sup>

## The New Formula, Applied

The 2010 formula significantly increased Rhode Island's investment in K-12 education. In its first year, local revenues covered 58.2% of total education revenues and state revenues 32.0%. However, between FY 2012 and FY 2020, state revenue growth outpaced total education revenue growth, raising the state's share to 37.3% by FY 2020. Still, disparities across districts persist.

In FY 2020, districts with low property wealth and high poverty levels, such as Pawtucket and Woonsocket, ranked among the lowest in per-pupil spending, while

Central Falls was in the bottom ten. Pawtucket and Woonsocket spent \$822 and \$1,526 less per pupil, respectively, than their foundational cost—the sum of the core instruction amount and the Student Success Factor (SSF). Providence, which spent slightly above the statewide per-pupil average, exceeded its foundational cost by only \$397 per student.<sup>24</sup> Central Falls and Providence, the districts with the highest foundational costs due to their high poverty rates, exceeded their foundational costs by relatively small margins. These disparities are concerning because the state's SSF funding, intended to provide additional resources for students in poverty, proved insufficient to fully address the needs of the urban districts, and so disparities due to

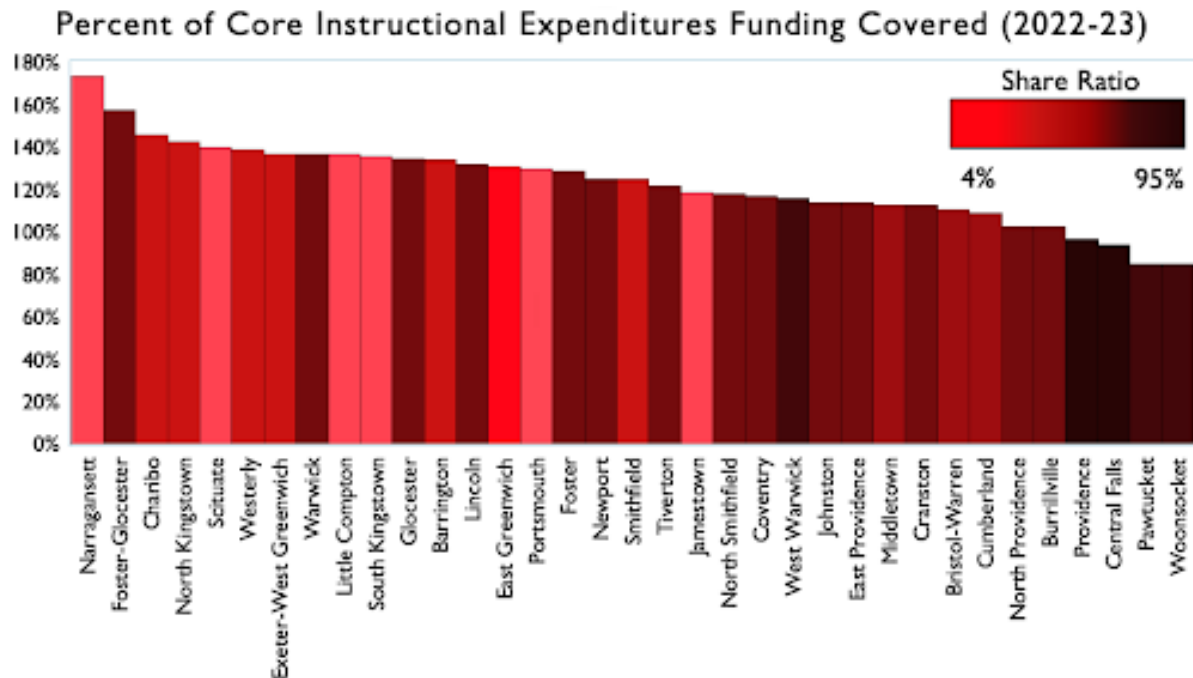


Figure 4: Percent of core instructional expenditure funding covered by school district. (Data derived from RIDE 2024 Accountability Report Card data<sup>25</sup> and excludes capital projects and debt service.)

community property wealth persist. See Figure 3.

While the new funding formula expanded the state's commitment to education aid and provided predictability after years of politically-motivated appropriations, it fell short of providing funding that would support an adequate education for all students in Rhode Island. The formula identifies the core cost of providing an education and, based on enrollment, levels of poverty, and other weights, calculates a baseline level of funding, called the total foundation, for each community. The state then identifies, based on the quadratic mean element of the formula, what share of this recommended figure it will supply to each community (the State Share Ratio). However, even in communities receiving very high levels of state support, the core

amount is not fully funded by state education aid. Furthermore, the formula does not mandate a specific level of funding that municipalities must provide, leaving cities and towns to decide if they

**Four of the poorest districts in the state cannot even meet the state's baseline for adequacy**

will fund the balance of the core. This has been complicated by a perplexing trend in recent years: non-core expenditures, like transportation costs, school meals, and tuition payments to charter schools, have grown at a faster rate than core expenditures. These costs, although integral to district operations, are not included in the core instructional cost and

thus are not accounted for in the formula.

This has meant that four of the poorest—and largest—school districts in the state, Providence, Pawtucket, Central Falls, and Woonsocket, have not even met the level of core spending that the state considers a baseline for adequacy, as can be seen in Figure 4.

The 2010 funding formula aimed to allocate aid based on district-specific needs, considering enrollment, poverty, and property wealth to support poorer districts. While it has increased the state’s education funding share, the formula has not fully resolved long-standing inequities, as highlighted by persistent gaps in per-pupil spending and core expenditures.

Over its first decade, the new formula moderately increased the state’s share of education funding and targeting aid to high-need districts. Yet, these efforts only marginally improved overall equity, as urban districts still lagged in per-pupil spending compared to wealthier areas. Data from a recent RIPEC report highlights this disparity: the share of total state revenue allocated to the “five urban core districts”—Providence, Woonsocket, Pawtucket, Central Falls, and West Warwick—increased by only 1.6 percentage points between FY 2012 and FY 2021.<sup>27</sup> This marginal shift is even less significant when considering that the share of student enrollment in these urban districts grew by 1.1 percentage points during the same period, while enrollment in other districts declined.

FY 2021 marked both the first year the Rhode Island funding formula was fully phased-in and the last year it functioned as originally designed. In response to

significant enrollment declines during the COVID-19 pandemic and the potential for substantial losses in state funding for LEAs, the General Assembly adopted a “hold harmless” policy in the FY 2022 budget to shield LEAs from funding reductions tied to enrollment decreases.

When enrollment continued to decline the following year, the Assembly extended the “hold harmless” approach for FY 2023. In 2023, for the FY 2024 budget, the Assembly moved away from a broad “hold harmless policy” and instead established an enrollment loss transition to provide

***Reliance on categorical funding risks perpetuating the very inequities the 2010 funding formula sought to address.***

partial compensation to districts facing enrollment declines. However, they also adopted a new standard for determining students’ qualification for the Student Success Factor bonus, based on direct certification through federal assistance programs like SNAP, which resulted in a notable undercounting of students in poverty. This change sparked concerns about the accuracy and equity of funding allocations, as districts with high poverty rates, such as Central Falls, saw significant reductions in the proportion of students qualifying for the SSF bonus.

Another significant development in Rhode Island’s education funding landscape has been the expansion of categorical funding, particularly for multilingual learners and high-cost special education needs. The state increased its investment in these areas, with urban districts receiving

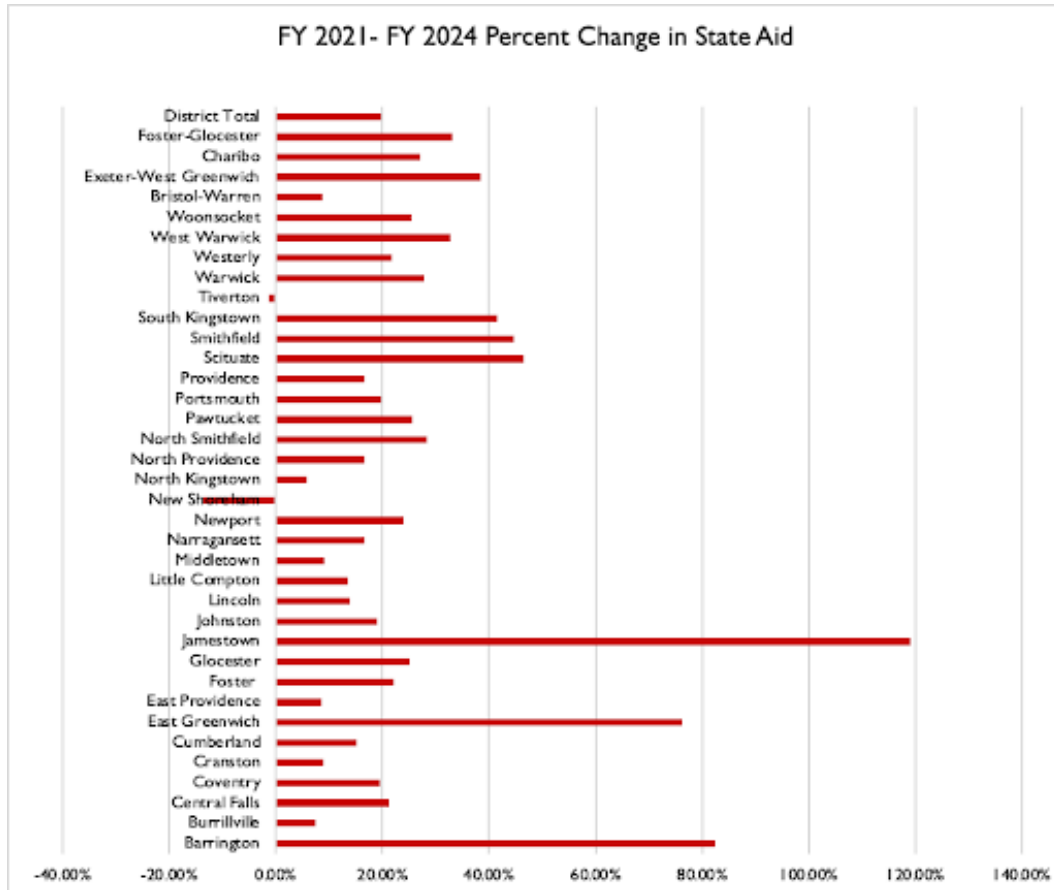
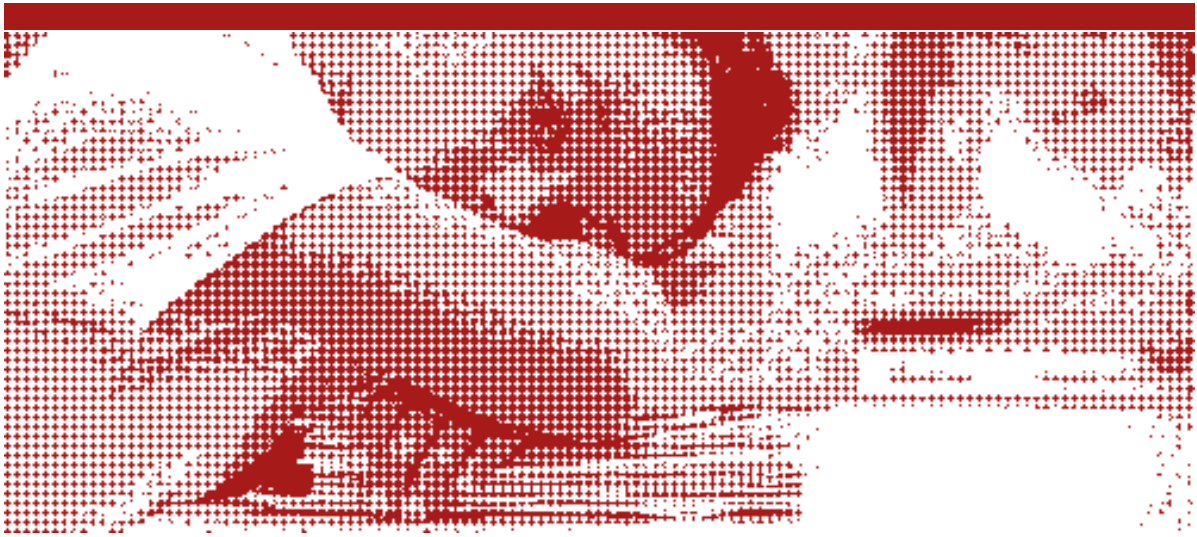


Figure 5: Change in State Aid per School District (RIPEC calculations<sup>26</sup>)

substantial new resources. However, this approach raises concerns about a potential return to the pre-formula status quo, as the lack of a structured funding formula for categorical funding introduces uncertainty for districts reliant on these supplemental funds. While these targeted increases aim to address specific needs, the broader distribution of state education aid from

2021 to 2024 continued to reveal a retreat from equity. (See Figure 5) Urban districts, which enroll approximately one-third of the state’s students, received less than half of the new state funding during this period. Despite targeted efforts, the reliance on categorical funding without a clear formula risks perpetuating the very inequities the 2010 funding formula sought to address.



## 5 Tax Cuts

“Rhode Island has advantages and disadvantages, like every other state, but as a small state, we are more subject to movements of capital and labor across state lines,” said Paul Dion, director of the Department of Revenue Analysis between 2008 and 2021.<sup>1</sup> In the 1990s, driven by this belief in capital flight and a desire to improve the state’s “business climate,” Rhode Island’s policymakers put their focus on cuts in state taxes. Facing rising deficits in the 1990s, the state introduced a temporary income tax surcharge in 1991 and a modest surtax on high-income earners in 1993.

During Governor Lincoln Almond’s term, Rhode Island saw significant tax-cutting measures, beginning with the 1993 surtax on high-income earners, repealed unilaterally by the state tax administrator R. Gary Clark when the legislature was out of session in the fall of 1995.<sup>3</sup> Almond went on to cut income taxes by 10% in 1997, to enact capital gains tax cuts in 1996 and

2001, and to initiate the first effort to eliminate the car excise tax. Michael O’Keefe, the head fiscal advisor to the House Finance Committee, voiced the thought process of policymakers who approved all these cuts at the time: “The Chairman [then-Rep. Tony Pires, chair of the Finance Committee] believes the state would benefit from increased fiscal constraints in future years.”<sup>4</sup>

*Driven by a belief in capital flight and a desire to improve the state’s “business climate,” policymakers put their focus on state tax cuts.*

Under Governor Donald Carcieri (2003-2011), the state implemented a series of tax reforms aimed at attracting and retaining high-income earners. Among these reforms was Speaker William Murphy’s 2006 proposal for a “flat tax” alternative, which would be exclusively

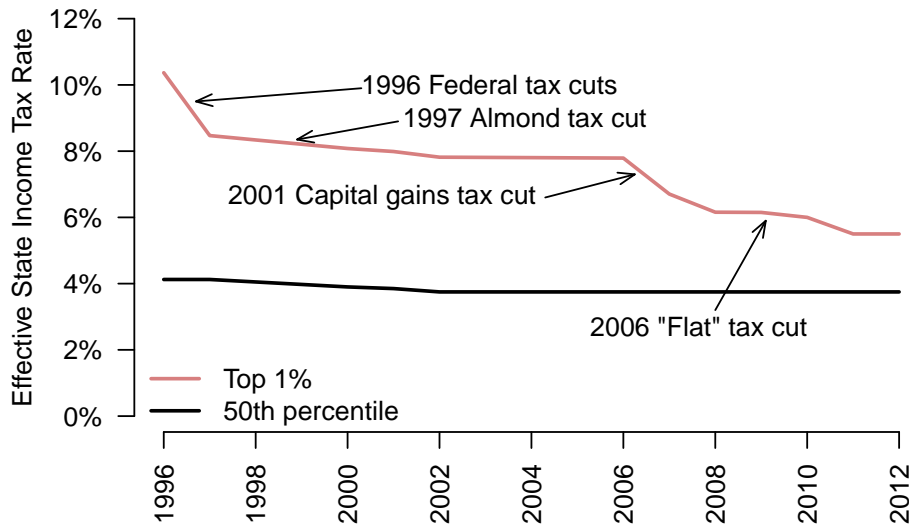


Figure 6: The evolution of the top income tax bracket, 1996-2012. The black line shows the estimated effective tax rate for the median taxpayer and the red line shows the same for a taxpayer in the top 1%.<sup>2</sup>

available to high-income earners. While these reforms were politically popular among businesses and wealthier residents, they came at a high fiscal cost. State revenues declined sharply, and again the promised economic growth—measured in terms of job creation and increased investment—proved elusive. Representative Edie Ajello reiterated these sentiments: “Elected officials are often eager to announce tax cuts without regard for the unforeseen costs.”<sup>5</sup> With state tax cuts preventing the state from increasing education aid, the lost revenue shifted the tax burden to property taxes, which disproportionately affect low- and middle-income residents.

This problem is emblematic of a broader pattern in Rhode Island tax policy. For example, the 1997 income tax cuts, the 2007 flat tax, and both the 1997 and 2017 versions of the motor vehicle excise tax cuts were all phased in over several years. Each of these tax cuts was initially funded

as part of the budget for their respective first years, but none addressed how the state would offset the revenue losses in the “out years.” This lack of planning for long-term fiscal impacts left the state vulnerable to economic downturns. The state faced growing structural deficits, as successive tax cuts eroded the revenue base without identifying corresponding spending reductions or alternative revenue sources.

## Personal Income & Capital Gains Taxes

During the 1990s, pressure to “simplify” the tax code and attract businesses led to the repeated restructuring of personal income and capital gains taxes. At this point, the RI tax form was eight lines long, as a taxpayer’s state tax liability was simply a percentage of the federal tax liability, something legislators referred to as a



“piggyback.” What was simple for citizens was less simple as a matter of policy since state tax policy was essentially subject to the whim of the federal government. According to Sasse, “The personal tax was causing real problems because Rhode Island was piggybacked onto the federal tax code, and so we had no discretion.”<sup>6</sup>

This conflict became untenable when the Bush tax cuts of 2001 threatened an even bigger income tax cut than the one already underway. At the time, Rhode Island’s income tax rate was set at 25% of federal tax liability, the final phase of the 10% tax cut Governor Almond had started phasing in after the 1997 legislative session. Year 5 of this cut was already predicted to be an immense strain on the state budget.<sup>7</sup> This state income tax system was referred to as a “piggyback” as the tax was applied after all federal tax calculations and deductions. Therefore, the amount of tax revenue the state received during a specific taxable year was significantly influenced by federal tax laws and provisions. Immediately prior to enactment of the Bush cuts, officially known as the Economic Growth and Tax Relief Reconciliation Act of 2001, the state legislature changed the Rhode Island income tax, so that it was no longer based on the federal tax liability, though it retained a dependence on the federal definition of taxable income, with certain adjustments and set tax rates at a percentage of federal income tax rates.<sup>8</sup> This “decoupling” law mandated that the Rhode Island Tax Administrator annually adjust the rate schedules for inflation.

Following the state’s decoupling from the federal piggyback, with the state having more direct control of the tax rates, Governor Donald Carcieri was eager to

advance a legislative agenda of more tax cuts. One of the key changes was the introduction of the “alternative flat tax,” a measure that allowed the wealthiest taxpayers to reduce their tax liability. This policy, phased in between 2007 and 2012, allowed high-income earners to opt for a lower

*Once the state income tax was no longer set by federal policy, state policy makers started cutting rates for the wealthy.*

percentage of taxable income, phasing down from 7% in 2006 to 5.5% by 2011.<sup>9</sup> Initial projections underestimated the tax cut’s cost, ignoring income growth trends favoring the wealthy.<sup>10</sup> By 2012, the annual cost was estimated to reach \$112 million. Only those earning above \$260,000 annually benefited. These tax cuts primarily benefited high-income individuals, without clear evidence of substantial economic gains, and contributed to significant revenue losses, further straining state finances in the aftermath of the Great Recession.

## Tax Policy Strategy Workgroup, 2008

On June 18, 2008, Governor Donald L. Carcieri convened the Tax Policy Strategy Workgroup. With the mission of “developing a tax strategy so that Rhode Island’s tax structure is a competitive advantage in retaining jobs and recruiting businesses,” the 21 members of the Workgroup met in smaller subgroups and as a whole committee from June 2008 until

February 2009.<sup>11</sup> During these meetings, the Workgroup “studied tax practices of Rhode Island and other states and constructed a coherent strategy for taxation in Rhode Island.”<sup>12</sup>

The culmination of the Workgroup was a report issued in March 2009—the report claimed Rhode Island’s high tax burden, particularly for businesses, placed the state at a disadvantage compared to neighbors like Massachusetts and Connecticut. Recommendations included simplifying the personal income tax by adopting a four-bracket system with a top rate of 5.5% and taxing capital gains as ordinary income. At the time, Rhode Island’s top rate was 9.9%, though by then the flat tax alternative had been introduced to reduce that for wealthy people who chose to use it. The group also proposed reducing the corporate tax rate or replacing it with a tiered franchise tax, standardizing property tax rates, and capping tangible and motor vehicle taxes. Estate tax reforms, such as increasing exemptions, and sales tax adjustments to broaden the base while lowering rates were also advised. Workgroup leaders claimed that the reforms were grounded in principles of efficiency and competitiveness, with an emphasis on phased implementation to align with fiscal constraints and long-term goals for economic vitality.

The inner workings of the Workgroup underscore that even the technical task of crafting tax policy is deeply political. While subcommittees within the group worked on specific tax issues and contributed recommendations, the influence of business interests loomed large, shaping the agenda and steering the priorities of the Workgroup. Robert Tannenwald, former

Director of the Federal Reserve Bank of Boston’s New England Public Policy Center and a member of the Workgroup, observed that corporate interests wielded significant sway, with proposed reforms like eliminating the corporate income tax and capping tangible taxes reflecting clear concessions to these stakeholders.<sup>13</sup> Although subcommittee recommendations were heard, the decision-making process was not as inclusive as it might appear. According to Tannenwald, the final set of proposals—dubbed the “Chair’s proposal”—was selectively curated by the Chair from the broader pool of

*What looked like an open investigation of tax policy was really a push for cutting taxes still further.*

recommendations. This narrowed list was the only one voted on by the full committee, effectively centralizing decision-making power and limiting the scope of deliberation. This procedural dynamic reinforced the political nature of the process, privileging certain voices and priorities over others and emphasizing the inherent lack of negotiation and compromise that characterize tax policy reform.

In 2010, as a result of the Workgroup’s report, income tax rates were cut again. The top rate of the “alternative” flat tax was adopted for the highest income earners, lowering the top marginal rate from 9.9% to 5.99%. Other changes to taxes at the lower brackets made this change more complicated than merely a cut for the wealthiest, and the pre-existing flat tax alternative allowed legislators to claim this was not a cut for the top end. This reform



*Figure 7: Corporate Income Tax Revenue (1992–2023), constant 2023 dollars. You can see the rise in collections from the reforms of the mid-2000s, but collections have not kept up with other sources of revenue, so business taxes remain a less important source of revenue than in 1990. (Compiled from Revenue Assessments from the Rhode Island Department of Revenue Analysis<sup>14</sup>)*

took effect on January 1, 2011.

## Corporate Income Tax

As with the income tax, efforts to reform Rhode Island’s corporate income tax system have long been driven by the perception that it is important to boost the state’s economic competitiveness to attract business investment. Central to these reforms has been the push to improve Rhode Island’s rankings in national assessments, such as those published by the Tax Foundation, which often seems to play a critical role in shaping Rhode Island legislators’ perceptions of the state’s “business climate.” However, while these measures are politically attractive, they have drawn criticism from experts who question the validity and long-term utility of such rankings as a basis for tax policy. State officials and policymakers frequently cite the Tax Foundation’s State Business Tax Climate Index as a benchmark for economic competitiveness. The index evaluates state tax structures based on

their “simplicity, neutrality, and efficiency,” offering rankings that are widely publicized and often influential in public discourse. Gary Sasse, who became a prominent advisor to Governor Carcieri, expressed these sentiments in a recent conversation: “We felt, to improve the overall competitiveness, we had to restructure income tax and develop a more competitive system.”<sup>15</sup> These sentiments reflect a broader trend in Rhode Island’s policymaking, where tax reforms are

***Are tax reforms for attracting businesses, or for raising revenue for public services?***

framed as essential tools for attracting businesses and improving the state’s economic profile, rather than as tools to raise revenue for beneficial (or essential) public services.

Despite its prominence, the Tax Foundation’s rankings have faced significant criticism for prioritizing certain

tax structures—such as low or flat corporate tax rates—without fully accounting for the broader implications on public services, infrastructure, and workforce development. Robert Tannenwald has expressed skepticism about the indicators used in these rankings, noting that “enacting policy to improve competitiveness and the state’s ranking at the Tax Foundation is not a feasible long-term solution.”<sup>16</sup> Tannenwald’s critique highlights the limitations of relying on such rankings, which often fail to consider the unique economic and demographic characteristics of individual states.

Rhode Island’s corporate tax policy has undergone significant changes in recent decades, with reforms aimed at reducing rates, simplifying compliance, and incentivizing business activity. In 2014, Rhode Island reduced its corporate income tax rate from 9% to 7%, aligning it more closely with regional averages. Dion emphasized the importance of regional considerations in policymaking: “when deciding fiscal policy, we can’t just look at Rhode Island; we have to consider Massachusetts, Connecticut, the whole of New England.”<sup>17</sup> This tax reduction was accompanied by a shift to a single-sales factor apportionment formula, which calculates corporate tax liability based solely on in-state sales rather than property or payroll. This policy shift reflected Dion’s mindset, as the move to single-sales factor apportionment mirrored methods already employed by Massachusetts for corporations and financial institutions. Notably, the state also adopted combined reporting, a critical reform that ensures corporations with multiple entities pay taxes on their full income, preventing profit-shifting to lower-tax jurisdictions.

Notwithstanding the presumed goals of these policy changes, they have also come with trade-offs. The reduction in corporate tax rates and the reliance on tax credits have significantly decreased state revenues. According to the figure above, revenue from the state’s business corporation tax did not reach or pass 2006 levels till almost a decade and a half later in 2021 (Figure 7). Revenue losses like this have compounded Rhode Island’s ability to fund essential services, including education.<sup>19</sup> Despite the policy changes, Rhode Island’s economic growth has not consistently outpaced regional or national averages. The 30-year record of tax cuts

***The 30-year record of tax cuts has done little to change the state’s persistently high unemployment rates.***

has done little to change the state’s persistently high unemployment rates and modest job creation levels serve as evidence that tax cuts might be an insufficient strategy to spur significant economic development. This matches the experience of other New England states, like Massachusetts, where similar trends of corporate tax cuts have only resulted in substantial revenue losses.

Corporate income tax revenues in Massachusetts have significantly declined since the 1980s, see Figure 8. In 1968, the corporate income tax accounted for over 16% of total state tax revenue, but by 2002, it had plummeted to just 4%. Adjusted for inflation, corporate tax revenue dropped by \$227 million between 1991 and 2002 and by \$356 million between 1982 and 2002. If corporate tax revenue had remained



Figure 8: Massachusetts Corporate Income Tax Revenue, up to 2003.<sup>18</sup>

constant as a share of personal income since 1991, Massachusetts would have collected an additional \$490 million in 2002. The decline in corporate tax revenue has shifted more of the tax burden onto individual taxpayers. In 1968, sales and corporate income taxes were nearly equal, but by 2002, the sales tax was six times larger than the corporate income tax, and the personal income tax was 13 times larger. The erosion of corporate tax revenue is part of a national trend, with state corporate tax revenues growing at half the rate of federal corporate tax revenues during the economic expansion of the mid-1990s. The effective state corporate tax rate fell from 8.1% in 1986 to 3.8% in 1998, the lowest level in 30 years.

This trend continued into the 21st century, by the 2010s, this share had fallen to 10-11%, reflecting a substantial reduction in the proportion of taxes paid by corporations. Although there was a modest

increase in the early 2020s, with corporate taxes averaging 11.9% of total state tax collections, this uptick was largely driven by record corporate profits during the COVID-19 pandemic, even as many households faced economic hardship. Had corporate tax revenues maintained their 1980s share, businesses would have contributed an additional \$1.2 billion in Fiscal Year 2023 alone.<sup>20</sup>

***Corporate tax collections lag behind other taxes which puts more burden on individuals.***

Massachusetts' approach imitates Rhode Island, where corporate tax reforms have similarly stunted the growth rate of corporate tax revenue. Furthermore, Rhode Island's reliance on municipal aid and regressive property taxes to fund public services has made the effects more

immediately felt at the local level.

## Motor Vehicle Property Tax

Until 2023, Rhode Island law authorized cities, towns, and fire districts to levy an annual motor vehicle property tax.<sup>21</sup> However, this tax faced widespread criticism, partly due to significant variations in municipal rates, so that taxpayers with identical vehicles could face drastically different tax bills depending solely on their municipality. These inequities, combined with rising taxpayer frustration, prompted calls for reform.

The first significant effort to address the issue occurred in 1998. While then-Governor Lincoln Almond focused on income tax cuts, Antonio (Tony) Pires, Chair of the House Finance Committee, championed a motor vehicle tax phase-out. Pires envisioned the tax reform as a cornerstone of his anticipated 2002 gubernatorial campaign.<sup>22</sup> Initially, the motor vehicle tax phase-out and income tax reform proposals competed for legislative attention. Eventually, House leadership decided to incorporate both into the state budget, with each tax cut to be phased in over several years. However, while the income tax changes were fully implemented on schedule, the motor vehicle tax phase-out faltered.

The 1998 phase-out law aimed to eliminate the motor vehicle excise tax by FY 2006, fully reimbursing municipalities for lost revenue through state general funds. The phase-out reduced the tax through two mechanisms: increasing annual exemptions on a vehicle's taxable value,

from \$1,500 to \$15,000, and freezing tax rates at 1998 levels. Despite these ambitious plans, the schedule faced repeated modifications and was never fully implemented. The legislature modified the schedule and reimbursement many times. In 2000, the phase-out was extended by a year. By 2002, the annual exemption increases were halted at \$4,500, effectively pausing the phase-out. In 2005, the legislature tied exemption increases to revenue from video lottery terminals. By 2010, economic downturns and fiscal constraints forced the legislature to abandon the phase-out entirely, reducing the minimum exemption to \$500 and making state reimbursements subject to appropriations. Municipalities were permitted to offer higher exemptions but received no additional state reimbursement for doing so.

The inequities and fiscal pressures caused by the motor vehicle tax and state

*The car tax cut was enacted to be phased in over several years, without specifying the necessary cuts in services.*

reimbursement efforts persisted until 2017, when Speaker Nicholas Mattiello spearheaded a new phase-out law.<sup>23</sup> This law gradually eliminated the tax over a six-year period, starting in FY 2018, by increasing exemption amounts, reducing the percentage of a vehicle's value subject to taxation, and capping the maximum allowable tax rates. Initially scheduled for completion by FY 2024, the phase-out was expedited by a 2022 state budget provision, achieving full elimination by FY 2023.

## Property Tax Cap

During the economic expansions of the 1990s and early 2000s, Rhode Island's income tax revenues grew significantly, even as rates remained stable or declined. Simultaneously, property taxes, which included vehicle excise taxes, increased substantially, disproportionately burdening low- and middle-income residents. While the state reduced income tax rates, it shifted the fiscal burden to municipalities, which had fewer tools to address rising costs without relying on regressive property taxes. The nature of regressivity meant that many more people felt the property tax increases than felt the income tax cuts, contributing to the anti-tax movements in the state.

Beginning in the 1970s, many U.S. states adopted property tax limitation measures, led by California's Proposition 13.

Proposition 13's success, which capped property tax rates at 1% of the assessed value of a property, inspired similar actions in other states between 1979 and 1985, including in the Rhode Island legislature.

In 1985, Rhode Island passed the Property Tax Relief and Replacement Act, which capped the annual growth in property tax revenues at 5.5%. This cap applied to both property tax rates (mill rates) and total revenue collected. However, the law included exceptions allowing towns to exceed the cap in specific situations, such as when they faced losses in non-property tax revenues, anticipated emergencies, or increases in debt service expenditures that exceeded the cap. Towns could also increase taxes above the cap with approval from their governing bodies, and in towns with financial town meetings, the town's

voters.

In 2006, the law was amended to make the tax cap more rigid. The General Assembly passed Senate Bill 3050 (S-3050), a law designed to reduce the state's dependence on property taxes and ensure greater fiscal predictability for municipalities. Introduced by Senate President Teresa Paiva-Weed, the law imposed a cap on annual increases in local property tax levies, stepping the cap down from the 5.5% per year limit. The revised law made the cap apply solely to a municipality's overall property tax collections (the "levy"), removing the flexibility that allowed towns to comply by simply keeping their mill rates below the percentage cap. Over time, the bill

*The tax cap is lower now—and more rigid—than it was before 2006.*

schedule reduced the cap, with the maximum allowable increase lowered to 4% in fiscal year 2013.

The cap was intended to provide property owners with financial relief and help municipalities plan their budgets more effectively. However, the property tax cap system has faced criticism for curtailing local governments' ability to fund essential services like education, public safety, and infrastructure. While the caps ease the burden on taxpayers in the short term, they pose challenges for municipalities as the cost of public services continues to rise. In particular, local governments with greater reliance on property taxes may struggle to meet the increasing demand for services. This is especially true when inflation rises, as it did in 2022 and 2023, since the cap is fixed at 4%, no matter what.

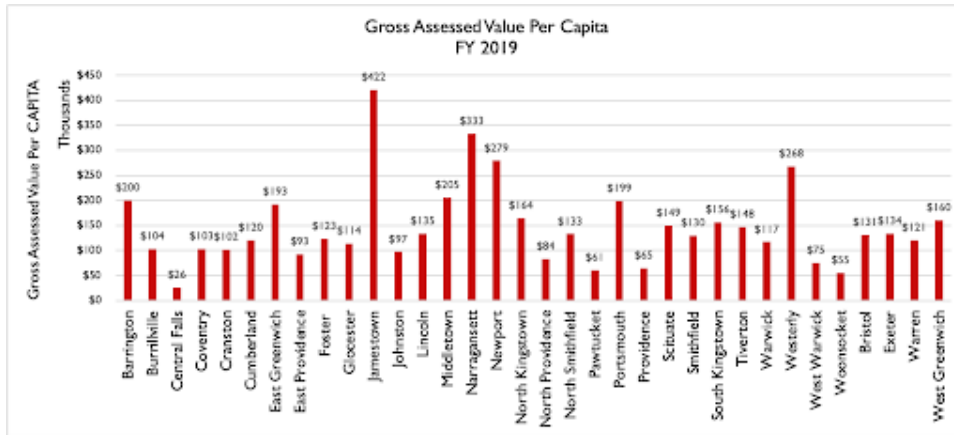


Figure 9: Gross Assessed Property Value per Municipality. Figures are in thousands. Note that New Shoreham (\$1,857) and Little Compton (\$589) are not included because they are such outliers. (Compiled with data from the U.S. Census Bureau, R.I. Division of Municipal Finance adjusted equalized weighted assessed valuations, & RIPEC calculations)

The property tax cap may not have a significant impact on education funding in the state's poorer communities. In Pawtucket, for example, the funding formula dictates that the city fund only 16.5% of the foundation aid for education in 2025 (in addition to funding all the non-core costs entirely excluded from State funding). The growth rate of the local share therefore pales in comparison to whatever action the state takes in funding Pawtucket schools. On the other hand, the property tax cap can have a significant impact on school funding in more affluent districts. An implicit assumption behind the funding formula is that wealthier districts are better-positioned to fund their schools, and so require less aid from the state. But the tax cap is in conflict with that policy. By limiting the ability of those communities to raise funds, the property tax cap prevents these districts from replacing lost education aid when a transition to a more equitable funding formula lowers their state share.

## Property Tax Disparity

Property taxes are the cornerstone of local revenue in Rhode Island, accounting for a staggering 87.9 percent of locally generated revenues in fiscal year 2022. This heavy reliance on property taxes creates a system where municipalities are

**Funding schools still depends on real estate value per student.**

disproportionately affected by the value of the property within their borders. Therefore, the ability to generate revenue through property taxes varies widely across the state leading to significant disparities in funding for essential services including education, public safety, and infrastructure. For example, in fiscal year 2019, the gross assessed value per capita in Central Falls was just \$26,427 while in Jamestown, it was \$421,561, and New Shoreham (though not pictured due to scale) had an astonishing \$1,857,715 per capita.<sup>24</sup> See Figure 9.



This vast difference in property wealth means that municipalities with lower property values struggle to generate sufficient revenue to meet the needs of their residents while wealthier towns like Jamestown and New Shoreham have far greater financial flexibility. This directly impacts the quality and availability of public services as schools in low property wealth municipalities often face chronic underfunding compared to their wealthier counterparts.

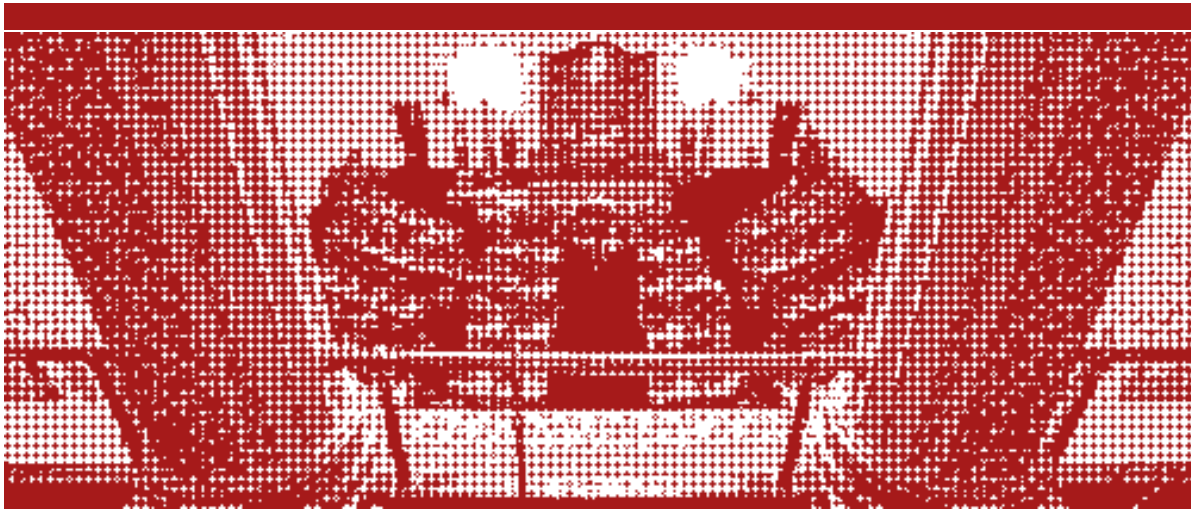
The reliance on property taxes as the primary source of local revenue also exacerbates inequities in education funding. In Rhode Island, 50.1 percent of K-12 education funding comes from local governments compared to the national average of 44.1 percent. This means that municipalities with lower property values such as Central Falls, Providence, Pawtucket, and Woonsocket are at a significant disadvantage when it comes to funding their schools. Despite the state's efforts to redistribute resources through its funding formula, the gap in per pupil spending between wealthy and less affluent districts remains stark. For instance, in fiscal year 2020, Pawtucket and Woonsocket spent \$822 and \$1,526 less per pupil respectively than their foundational cost. This funding gap underscores the challenges faced by low property wealth municipalities which are often unable to raise sufficient revenue through property taxes to meet the educational needs of their students

The disparities in property wealth across Rhode Island municipalities are mirrored by significant variations in tax burdens. In fiscal year 2024, the tax burden for a resident homeowner with a \$425,000 assessed property value in 2023 (the

median price of a single family home sold in Rhode Island) ranged from under \$3,000 in four communities to as high as \$9,635 in Foster. For businesses, the disparity was even more pronounced with tax burdens ranging from under \$10,000 in four communities to \$45,780 in Providence. It is a similar case for non-residents. In Providence a five unit residential dwelling valued at \$10 million would face a tax bill of \$10,280 if owned by a resident but \$18,350 if owned by a non-resident, and \$35,100 if classified as commercial property.<sup>25</sup> This unequal treatment of taxpayers creates significant fiscal challenges particularly for businesses and renters in urban areas with low property wealth.

*The reliance on property taxes as the primary source of local revenue remains the major source of inequities in education funding.*

These disparities in tax burdens are not just a matter of fairness; they also have broader implications for the state's economy and housing affordability. High property taxes on businesses and nonresident homeowners can lead to increased costs for renters, as landlords pass on these expenses in the form of higher rents. This creates a vicious cycle in which low-income residents, who are already struggling with the high cost of living in Rhode Island, are further burdened by rising housing costs. Meanwhile, the shift in tax burden from resident homeowners to other groups through policies like homestead exemptions, while providing relief to some, exacerbates the financial pressures on businesses and renters, particularly in urban areas where property values are lower and the need for revenue is greater.



## 6 Conclusion

The history of education funding in Rhode Island is a testament to the challenges of achieving equity in a system shaped by competing interests, economic pressures, and political expediency. Over the decades, the state has implemented numerous policies and funding formulas aimed at addressing disparities between wealthy and less affluent districts, but these efforts have often been undermined by a lack of long-term planning and a tendency to prioritize short-term fixes over sustainable solutions. From the financial crises of the 1990s, which led to sweeping cuts in education funding, to the implementation of the 2010 funding formula, which was designed more to secure federal funding than to address deep-rooted local inequities, Rhode Island's approach to education funding has frequently fallen short of its goals.

The abandonment of meaningful reform efforts, such as the Guaranteed Student Entitlement (GSE) program, once the threat of judicial oversight was removed,

underscores the challenges of achieving equity without external pressure. Similarly, the creation of the 2010 funding formula, which incorporated politically motivated elements like the quadratic mean to appease certain districts, highlights the limitations of policy-making driven by short-term political considerations. While the formula succeeded in increasing the state's share of education funding and providing some predictability, it failed to

*The new formula succeeded in increasing the state share of education funding, but failed to fix the inequities of the system.*

fully address the systemic inequities that persist in Rhode Island's education system. Urban districts, which serve a disproportionate number of low-income students, continue to lag behind their wealthier counterparts in per-pupil spending, despite the additional resources

provided by funding formula features like the Student Success Factor (SSF) or ad hoc supplements like high-cost special education.

Although many suggest further reform, we have observed across the 1990s and 2000s that reforming the state's education financing system is very politically challenging. As Brown University's Kenneth Wong noted, such change rarely occurs without the intervention of the judiciary.<sup>1</sup> Given that the result of *Pawtucket v. Sundlun* in the 1990s has prevented education advocates from using the courts to achieve equity, this route does not appear to be a possibility in the near future. Furthermore, the 2024 re-election of President Donald Trump, who has floated the idea of eliminating the Department of Education altogether, makes it appear unlikely that there will be federal initiatives to improve equity and adequacy over the next four years. Even if there were another version of Race to the Top that provided the impetus for a rewrite of the formula, it is not clear a rewrite would resolve this decades-old battle. After all, the formula created under that program began to show signs of decline within a decade of being enacted. The lack of accountability to the judiciary allowed the legislature to design a formula with politically-motivated elements that diminished its ability to equalize funding. That formula did not follow the adequacy guidelines outlined by the 2007 Joint Commission, choosing only one of the two weights for students in poverty and multilingual learners in the name of efficiency. It took another 15 years for multilingual learners to be accounted for at all in the funding formula—years during which the urban school districts shouldered this cost while also struggling to meet

higher performance standards.

The lack of a strong judiciary with the power to intervene in educational matters has allowed policymakers to evade the issue of designing a better school financing system for long periods of time as students suffer the consequences. The missing potential threat of litigation has led to the delay of reform efforts for years, as was the case from 1994-2007, and acceptance of flaws that threatened the reformers' push for equity, which occurred in the writing of the existing funding formula. Before succeeding in Superior Court in 1993, Steve Robinson told the Providence Journal, "If you look at the legislative history of the recognition of the problem

***At this point, there is no judicial solution without a constitutional amendment.***

going back to the 1960s, you see a collective unwillingness to make the hard decisions."<sup>2</sup> This trend of avoiding long-range planning in education financing stretches far back in the state's history and, unfortunately, seems poised to continue. Robinson observes that it is not inadequate research or knowledge of solutions, but rather the lack of a way to hold the state accountable for shortchanging its students, that has continued this cycle.

Although the Supreme Court's decision in *Pawtucket v. Sundlun* has prevented judicial intervention over the past three decades, some advocates are still pushing to make the judiciary responsible for ensuring equity in education by amending the state constitution. In 2022, a bill to put this amendment to the voters was passed

unanimously by the State Senate, but received no vote in the House before the legislative session came to an end. The amendment would add language to Article XII, Sections I and II of the state constitution. The additional language in Section I would state, “It shall additionally be the duty of the general assembly and the state to guarantee an equitable, adequate and meaningful education to each child.”<sup>3</sup> The additional language to Section II would make Article XII judicially enforceable, entitling any party injured by noncompliance with the Article to bring action in Superior Court. If approved by the state legislature and ratified by the voters, such an amendment would be a response to the *Pawtucket v. Sundlun* decision more than three decades later, finally taking real steps toward accountability and equity in education.

The first half of the 2020s has presented numerous challenges to public education across the country. The effects of the COVID-19 pandemic on learning outcomes

are still being studied, but early results suggest significant consequences for

***“If you look at the legislative history of the recognition of the problem... you see a collective unwillingness to make the hard decisions.”***

students. Federal Elementary and Secondary Education Relief (ESSER) funding has finally disappeared, leaving fiscal cliffs for local governments across the country to reckon with. Rhode Island has faced additional trouble as new cracks have begun to appear in its funding formula, in addition to the inequities that have been criticized since its inception. It is increasingly apparent that a new model will be necessary. The question that Rhode Islanders must answer is whether they will force their representatives to confront this challenge head-on.

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