

**A Framework for  
Adequately  
and Equitably  
Funding  
Connecticut's  
Public Schools**

**ECS Formula Redesign  
Results-Based Accountability  
State/Local Revenue Rebalancing**

**CONNECTICUT COALITION  
FOR *JUSTICE*  
IN EDUCATION FUNDING**

February 2007

# PREFACE

Securing Connecticut’s future by adequately and equitably funding the state’s public schools is a challenging yet crucial task that our state government must undertake.

On behalf of the Steering Committee of the Connecticut Coalition for Justice in Education Funding and our full membership, I proffer this *framework* for crafting the long-needed educational and fiscal reforms that will give our children the educational opportunities they deserve. The document illustrates how to transform the state’s outdated Education Cost Sharing formula into a 21st century vehicle to adequately address the learning needs of all Connecticut students. The framework describes the approximate level of funding necessary to provide these adequate educational opportunities to all Connecticut schoolchildren. Integral to the framework are accountability measures to ensure that increased funding actually transforms schools, bolsters student achievement, and builds tomorrow’s globally competitive workforce. Finally, this framework lays out sources of revenue to provide increased funding while improving tax fairness for the full funding of a revamped Education Cost Sharing formula.

This framework *does not constitute a concrete proposal*, but rather embodies a set of principles—adequate education funding, meaningful accountability standards, and tax fairness—that all Connecticut lawmakers have a responsibility to address. We invite the legislature to consider these principles and respond by devising a sound, rational system of school finance that meets constitutional muster and advances the state’s economic and societal objectives. Together, the legislature and the Governor have a responsibility to ensure adequate funding for the public schools via tax structures that are equitable and politically tenable. All of the options in the CCJEF framework are scaleable and suitable for phase-in. Our intent is to inform the policymaking process with thoughtful analysis that is broadly representative of the nearly 40 percent of Connecticut residents that live in CCJEF-member communities.

Please feel free to call upon CCJEF staff and our experts for any additional information that might be helpful.

Mark D. Boughton  
Mayor, City of Danbury  
President, CCJEF

## **Connecticut Coalition for Justice in Education Funding Steering Committee, 2007-08**

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# EXECUTIVE SUMMARY

The consensus in Connecticut is clear: The state must reform its education system to ensure that Connecticut's children can successfully compete in the 21<sup>st</sup> century global economy and become active, informed contributors to our democratic institutions. The Governor, legislature, local businesses, and parents know that under-investing in the public schools is simply unacceptable for preparing children for an increasingly knowledge-based economy and multicultural society. To fuel Connecticut's economic growth and strengthen its social fabric, we must redouble our efforts to ensure that this state's education system is second to none in preparing every student for high-wage/high-skill jobs, entrepreneurial thinking, and responsible citizenship.

Yet experts across the state believe that Connecticut is falling far short of its obligation to assist local education efforts. Even the Governor's Commission on Education Finance, State Department of Education (SDE), and Office of Policy and Management (OPM) acknowledge the state's long-standing failure to appropriately fund the ECS.<sup>3</sup> The Connecticut Coalition for Justice in Education Funding (CCJEF) has found that state funding to municipalities through the ECS actually *decreased* by \$28.5 million from 1989-1990 to 2005-2006.<sup>4</sup>

In 2005, CCJEF commissioned Augenblick, Palaich and Associates, Inc. (APA) to calculate the resources needed to provide all Connecticut students with an adequate education. This groundbreaking analysis was the first attempt in Connecticut to quantify the cost of the educational inputs necessary to insure that the vast majority of students have the opportunity to meet the state "goal" performance level on the state's reading and math mastery tests and for schools to fully comply with State Board of Education and federal standards. Based on APA's work, as well as consultations with education and fiscal experts across the state, this report presents a framework to the Governor and legislature for reforming the state's education funding system to ensure adequate educational opportunities for all children.

## REFORMING THE EDUCATION COST SHARING FORMULA

This report illustrates three separate models for revamping the Education Cost Sharing (ECS) formula in ways consistent with an adequacy-based funding system.<sup>5</sup> Each model fully funds the state's constitutional obligation to provide all students with suitable and substantially equal educational opportunities:

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<sup>3</sup> Governor Jodi M. Rell's Commission on Education Finance Final Report, January 2007.

<sup>4</sup> When factoring in inflation. Using the CPI-U inflation calculator of the Federal Reserve Bank of Minneapolis (online), the 1989 allocation of \$1,013,676,765, in 2006 dollars amounts to \$1,648,042,224. Education researchers often point out that inflation impacts the cost of education even greater than the CPI-U would indicate, primarily because of the labor-intensive nature of schooling, wherein upwards of 85 percent of costs are due to salaries and benefits.

<sup>5</sup> CCJEF does not explicitly endorse any one of the adequacy formula models or the revenue rebalancing options put forth in this document; nor does the organization necessarily endorse all of the accountability offerings.

<sup>7</sup> All three models utilize the same student data elements in the current ECS formula—plus special education counts by mild/medium/severe handicapping condition, with student poverty measured by eligibility for free/reduced price meals. All three models assume that other state grants that support current operating expenditures for districts will be eliminated (including Priority School District grants), allowing the formula to generate the full cost of an

- The adequacy models, on average, call on the state to set the base cost for educating a student at \$10, 979. This would provide \$1,292 more per student than the Governor’s plan. *When fully phased in, the models would require approximately \$2.6 billion in additional state spending each year, as compared to the \$1.1 billion in additional spending under the Governor’s fully phased-in proposal.*
- Unlike the Governor’s proposal, the models laid out herein would ensure that the state provides at least 50 percent of the monies needed for the adequate funding of districts’ current operating budgets. Today, the state provides just 29 percent of the funding spent on schools’ current operating expenses, forcing municipalities to pay more than their fair share.
- The adequacy models account for the extra (marginal) costs necessary for meeting the learning needs of children from low-income homes, those who are not yet English-language proficient, and students in need of special education services. CCJEF calls for the state government to play a substantially larger role in meeting these costly needs.

The adequacy-based formula models are designed not only to increase the overall amount of state funding provided to Connecticut school districts, but also to ensure that the distribution of state funding is more equitable to municipalities. The models apply one viable (and, we believe, more equitable) option for repairing the current ECS subformula that measures town wealth, raising base aid ratios above the minimum 6 percent for all but the wealthiest 13 towns.<sup>7</sup> The suggested town wealth revision equally balances equalized grand list values and median household income. Under the three models presented, all communities would receive considerably more aid than at present.

## **RESULTS-BASED ACCOUNTABILITY**

To ensure that money truly matters in improving learning, teaching, and school administration, CCJEF proposes to strengthen accountability standards. The intent is to establish constructive and instructive state and local mechanisms aimed at safeguarding schoolchildren’s constitutional rights to an adequate education while also maximizing taxpayers’ investment in public education and containing costs. CCJEF calls on the legislature, SDE, and local officials to consider implementing five fundamental accountability reforms:

1. ***Improve Fiscal Controls and Reporting.*** At both the state and local levels, improve and standardize the education accounting system; improve the quality and timeliness of fiscal data collection and management; improve the accuracy and timeliness of reporting practices; and increase transparency and communications with the general public concerning education costs.

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adequate education. The adequacy costs of all three models include universal preschool for all 4-year-olds and 3-year-olds from low-income families. And all three models use the 1.75 SGWL proposed by the Governor, but retain the minimum base aid ratio of 0.06.

2. ***Improve the Use of Data.*** At both the state and local levels, substantially broaden and otherwise improve the collection, analysis, public dissemination, and actual utilization of non-fiscal data in order to better understand educational needs, guide school improvement efforts, and target resources more effectively.
3. ***Undertake Cost-Effectiveness Studies.*** Beginning with SDE and districts “in need of improvement,” commission in-depth programmatic and fiscal audits aimed at accelerating school improvement districtwide, strategically identifying what is working well and what is not, targeting and reallocating resources where they will maximize student learning, and containing ever-rising education costs.
4. ***Create a School Finance Oversight Board.*** The General Assembly should consider establishing a nonpartisan permanent board devoted to overseeing the ECS and all adequacy-related state expenditures in education. Members would also include non-legislators with expertise in school reform and school finance matters. The board would be charged with consulting, prodding, and, if necessary, effectively intervening to ensure that money does improve student learning, and with approving and monitoring implementation of the improvement plans of districts “in need of improvement.”
5. ***Connect Policy Makers to Local Schools.*** Local school boards should be given opportunities to “show and tell” the challenges they face daily and the progress they are making in addressing those challenges. Designating “up close and personal” days for legislators, SDE, and municipal officials to visit schools, observe classes, talk with practitioners, students, and parents could strengthen mutual understandings, reinforce accountability, and ground local and state policymaking in the everyday reality of schooling across the state.

CCJEF is proud to be making use of the General Assembly’s Results-Based Accountability tool for comprehensively capturing the intent and desired outcomes of adequately and equitably funding the public schools, maximizing education dollars, and rebalancing the state’s revenue portfolio to fully fund PK-12 in more equitable ways than the current heavy reliance on the property tax.

## **RAISING REVENUE WHILE INCREASING TAX FAIRNESS**

This report presents six revenue options that would generate the funding needed to adequately fund Connecticut’s PK-12 school districts.<sup>8</sup> Responding to the oft-cited complaint of Connecticut legislators that “everyone wants more money but no one offers solutions as to where the money should come from,” CCJEF’s framework does not hide from difficult revenue decisions. Instead, what is offered here is a menu of options for legislators to reshape in politically viable ways to meet the state’s education reform needs. The six revenue-garnering options focus on reforms to the state’s income, sales, and property taxes in ways that decrease the burden on low-income families and the municipalities in which concentrated numbers of low-income families reside.

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<sup>8</sup> CCJEF does not explicitly endorse any of these options, but rather provides these alternatives to highlight that Connecticut has the financial resources necessary to create an adequate education system.

The CCJEF revenue options, which raise the full amount of the state's expected 50 percent share of adequacy for PK-12 schoolchildren, are summarized as follows:

TAX	OPTION 1	OPTION 2	OPTION 3	OPTION 4	OPTION 5	OPTION 6
<b>SALES</b>	5.3% on entire base*	4.75% on entire base*	5%**	4% on entire base*	5.5% on entire base*	4% on entire base*
<b>INCOME</b>	4 new brackets 5.75%<\$150K 6.5%<\$200K 7.25%<\$500K 8.75%>\$500K	3 new brackets 6.5%>\$500K 7.75%>\$1M 9.25%>\$2M	4 new brackets 6%>\$100K 7%>\$200K 8%>\$500K 9%>\$1M	3 new brackets 6.2%>\$500K 7.4%>\$1M 8.6%>\$2M	3 new brackets 6.25%>\$500K 7.5%>\$1M 8.75%>\$2M	4 new brackets 5.75%<\$150K 6.5%<\$200K 7.25%<\$500K 8.75%>\$500K
<b>PROPERTY</b>	na	2.8 mills on all property	2.5 mills on all property	5 mills on all property	1.5 mills on all property	17.5 mills busn & vehic 5.75 mills other property <sup>13</sup>
<b>TOTAL REVENUE</b>	<b>\$4.52B</b>	<b>\$4.51B</b>	<b>\$4.54B</b>	<b>\$4.51B</b>	<b>\$4.52B</b>	<b>\$4.50B</b>
<b>NET TO TAX- PAYERS</b>	<b>\$3.71B</b>	<b>\$3.71B</b>	<b>\$3.49B</b>	<b>\$3.60B</b>	<b>\$3.91B</b>	<b>\$3.58B</b>

\* Less a refundable tax credit for low-income households; includes tax on Internet sales

\*\* Continues food and some other major categories of exemptions; not eligible for applying Internet sales tax

***Each option raises approximately \$4.5 billion annually, thereby enabling the state to invest an additional \$2.6 billion in PK-12 education. This is \$1.5 billion more than the Governor's proposed FY2012 increase in annual spending for ECS grants (\$1.1 billion) plus preschool slots (\$133.7 million, including staff bonuses). These options would thereby enable the state to fulfill its constitutional obligation to adequately and equitably fund Connecticut's public schools.***

<sup>13</sup> Assumes pre-emption of all local property taxes on business and industrial property and of motor vehicle and business personal property tax, with state to fully reimburse municipalities for the foregone revenues plus \$500 million in homestead exemption on \$40,000 of assessed value for owner-occupied housing.



## **CONCLUSION**

Adequately and equitably funding education is an investment in the future. If our broken education system is not fixed today, we will live with the consequences tomorrow—including an under-skilled workforce, a weaker economy, fewer college graduates, a shrinking tax base, and a growing need for social services and other policy interventions that are far costlier than making the upfront investment in quality school in every neighborhood.

The time has come to stop attempting to plug the leaks in Connecticut’s school finance system. The time for historic change is now. The future of this state and of our children depends on these reforms.

# INTRODUCTION

***“Connecticut has reached a critical juncture and we must redesign the education system to create the workforce the State’s economy will need”***

*Governor M. Jodi Rell, FY2008 – FY2009 Biennium Budget Slide Presentation, Slide 10<sup>14</sup>*

Governor Rell has taken a brave first step into the quagmire that envelops Connecticut’s school funding system, a system that today jeopardizes the state’s economic and social fabric. It is a system marked by:

- Gross disparities in student performance across school districts, linked to community wealth and family socioeconomic status, with unconscionably low performance in the urban/urban-ring districts that serve a third of the state’s public school students and a majority of all Connecticut’s poor, minority, and limited-English-proficient students;
- Declining investment in public education by the state and federal governments, despite ever-increasing mandates;
- Fierce global competition for a high-skilled workforce, an especially looming threat given the shrinking pool of Connecticut’s young workers and the low academic attainment of urban youth who by the year 2020 are expected to comprise half of all new workers in the state;<sup>15</sup> and
- The inability of most communities’ property taxes to keep pace with rising education costs and the changing learning demands of their students and schools.

In November 2005, CCJEF brought a lawsuit against the state of Connecticut, alleging that it is failing to adequately and equitably fund the public schools, thereby denying plaintiff schoolchildren a reasonable opportunity to participate in the state’s economy and civic institutions, or even to meet the state’s own learning standards. In conjunction with that legal action, CCJEF seeks to offer constructive suggestions to assist the legislature and Rell Administration to address, in an expedient and satisfactory manner, the constitutional deficiencies in the current state funding system.

This “Framework for Adequately and Equitably Funding Connecticut’s Public Schools” is the result of a 6-month process of public consultation and collaboration between CCJEF member municipalities, in which nearly 40 percent of Connecticut residents live, school districts that serve about two-thirds of all poor, minority, and limited-English-proficient students, individual and institutional CCJEF members, and education and fiscal experts. This framework is a menu of possible solutions that we hope will address legislators’ understandable and oft-stated

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<sup>14</sup> See <http://www.opm.state.ct.us/budget/20082009BudgetBooks/BudgetHome.htm>.

<sup>15</sup> See, for example, the Connecticut Economic Research Council’s *Benchmarking Connecticut 2006: Determinants of Economic Growth*, <http://www.cerc.com/benchmarks>. That study also points out that based on current trends, Connecticut will see the share of its workforce with college degrees decline sharply in coming years.

complaint, that “everyone wants more money but no one offers solutions as to where the money should come from.”<sup>16</sup>

The options laid out herein to modernize the fiscal infrastructure necessary for equal educational opportunity and quality schooling throughout Connecticut are the foundation for school reform, not the be-all, end-all. Our framework describes needed changes in the state’s system of funding school districts and holding all levels of the system accountable. The framework addresses changes in the fiscal infrastructure that are *necessary but not sufficient* for effecting overall education reform. Improvements in curriculum and instruction, governance, and other aspects of educational delivery are beyond the scope of CCJEF’s fiscal infrastructure focus. ***Any significant improvement in student outcomes and strengthening of teaching and administration will first require the kind of fiscal infrastructure improvements described herein.***

## **Adequacy**

Simply stated, the cost of adequacy is what it takes to do the job of providing quality educational opportunities for all Connecticut children. That job is not the same as it was two decades ago when the ECS was designed and adopted. The accelerative pace of scientific and technological breakthroughs; the ubiquitous Internet, personal communication devices, and broadcast media that permeate modern life; the movement away from traditional family structures (including the ritual evening meal together); decades of failed public policies (housing, health care, welfare, transportation, etc.); and increasing wealth disparities that in Connecticut result in racial and economic segregation are all transforming the job of the schools in the 21st century.

In this era of standards-based education reform, doing the job adequately means providing resources sufficient to afford every student an opportunity to meet the state’s learning expectations. In 2005, CCJEF commissioned an education adequacy cost study by the Denver-based school finance consulting firm of Augenblick, Palaich and Associates (APA). ***Based on the well-established Professional Judgment methodology, APA conducted a series of panels with distinguished education practitioners from across Connecticut to determine the resources necessary to meet the state’s “goal” standard in math and reading on the state’s mastery tests.*** The panels’ 44 educators, who represented nearly half of all municipalities, identified the following resources as essential for ensuring that their students might reach state goals:

- Universal high-quality preschool for age 4, and beginning at age 3 for poor children, those from non-English speaking homes, and those eligible for special education services;
- Full-day kindergarten for all children in every district;
- Extended school days and a longer school year;
- Smaller class sizes, especially in schools that serve large numbers of at-risk students;
- High quality after-school programs;

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<sup>16</sup> CCJEF does not explicitly endorse any one of the adequacy formula models or the revenue rebalancing options put forth in this document. Nor does the organization necessarily endorse all of the accountability offerings.

- Intensive remediation for students who are struggling and at-risk of dropping out;
- Adequate staffing based on the population being served (staff ratios were then specified by panelists for schools and districts of varying demographics); and
- Sufficient professional development for teachers, administrators, and other staff.

This list reflects what professionals believe is necessary for students, teachers, and schools to succeed. These professionals were not asked to “design dream schools,” but rather to provide conservative estimates of what was needed to meet specific requirements and standards as concretely set forth by the State Board of Education.<sup>17</sup> ***The result is the most comprehensive estimate ever produced of what it would take to fund a constitutionally adequate education system in Connecticut.***

It should come as no surprise that the cost to provide these crucially important and constitutionally required educational opportunities far outpaces the current level of combined state, federal, and local funding available to most districts. This is why the cost of adequacy shown in the following pages is significantly greater than current spending.

CCJEF does not apologize for these higher funding estimates. Quality education simply cannot be bought on the cheap. Our children deserve better. The questions for Connecticut are, then: How much quality can the state afford, and how do we get it? How do we ramp up state revenues to provide the resources that schools say they need? How do we distribute that money more equitably across municipalities and their districts? And what accountability measures need to be in place to ensure that current and future investments actually make a difference in student learning?

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<sup>17</sup> Indirectly, these also incorporate federal mandates, such as No Child Left Behind (NCLB) and the Individuals with Disabilities Act (IDEA).

## ECS FORMULA REDESIGN

In January 2007, the Governor's Commission on Education Funding issued recommendations for updating the ECS formula.<sup>18</sup> Most of those recommendations were included in the Governor's proposed biennial budget, along with additional changes affecting the formula. During Commission hearings, State Department of Education and Office of Policy and Management staff presented data showing that *the 2005-06 gap between total local expenditures and state expenditures amounts to \$1.126 billion*. Assuming a 5 percent local growth in education expenditures annually (a modest assumption), *that gap is now about \$1.358 billion*.

SDE data presented to the Commission also showed that ECS spending in 1989-90, the year the formula was put into play, had grown to \$1.619 billion by 2005-06, an increase of nearly 60 percent over the 16 years.<sup>19</sup> Yet CCJEF's analysis shows that when inflation is factored in, *the 2005-06 ECS allocation was actually worth \$28.5 million less than the state's 1989-90 contribution!*<sup>20</sup> Compounded losses to towns over the last 16 years due to the state's failure to even keep pace with inflation are thus staggering. Moreover, during this same period, the ECS share of total state spending on K-12 education dropped from 61.28 percent to 46.02 percent.<sup>21</sup>

Connecticut not only has a constitutional obligation to reverse this devastating trend and provide adequate resources to its schoolchildren, but a moral and economic obligation as well. The ECS formula was created to fulfill those obligations, but the longstanding pattern of systematically underfunding the ECS over the years has had grave ramifications for teaching and learning.<sup>22</sup> ECS underfunding has negatively impacted every school district, resulting in both a deteriorating quality of education that has reached unconscionable proportions in too many communities and in untoward increases in mill rates as towns across the state have struggled to keep pace with the ever-escalating fiscal needs of their schools. That impact is greatest, of course, in the cities and towns that serve sizeable populations of poor, limited-English-proficient, and handicapped children. These are the cities and towns that the ECS was intended to help most, via the formula's weighted student counts. They are also the cities and towns with the weakest fiscal capacity for supporting their schools.

The state's school finance equalization mechanism, the ECS, is supposed to remedy these disparities, at least in theory, by roughly leveling out educational opportunity and property tax

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<sup>18</sup> The Commission was formed more than a year earlier in response to the education adequacy and equity lawsuit filed by CCJEF against the state.

<sup>19</sup> During these same 16 years, school construction funding increased more than 10-fold, growing from \$73 million to \$799 million.

<sup>20</sup> Using the CPI-U inflation calculator of the Federal Reserve Bank of Minneapolis (online), the 1989 allocation of \$1,013,676,765, in 2006 dollars amounts to \$1,648,042,224. Education researchers often point out that inflation impacts the cost of education even greater than the CPI-U would indicate, primarily because of the labor-intensive nature of the industry, wherein upwards of 85 percent of costs are due to salaries and benefits.

<sup>21</sup> This was largely due to the state's shift to spending on school construction, which grew from 4.40 percent of total state K-12 spending in 1989-90 to 22.70 percent in 2005-06.

<sup>22</sup> ECS monies directly support schools' operating expenditures, or Net Current Expenditures, that pay for teachers, guidance counselors, psychologists, social workers, classroom aides, custodians, nurses, librarians, and all the other personnel that are basic to student learning, plus books and supplies, extracurricular activities, and routine building and grounds operations. The ECS grant also supports central office leadership functions, including curriculum development, instructional supervision and alignment with curriculum and assessment, planning and budgeting, professional development, research and assessment, instructional and administrative technology operations, facilities management, and numerous other district oversight and operations management responsibilities.

burdens, thereby minimizing the education-related disparities of the “Two Connecticuts.” Clearly, the ECS, as it has been implemented and historically underfunded, has failed on both counts. *The goals of the ECS are not optional. They constitute a moral obligation to educate the state’s children for success. They also are a legal obligation rooted in the Supreme Court’s interpretation of the Connecticut constitution (Horton v Meskill, 1977).*

## **Why Not Just Fully Fund an Updated ECS Formula?**

The original ECS formula, as well as its current manifestation and the Commission/Governor-proposed update, attempted to represent prevailing equity concepts in school finance developed in the late 1980s, specifically distributing state funding equitably across towns, sending more funding to low-wealth communities and thus narrowing the range of education operating expenditures across school districts.<sup>23</sup> This reflects a notion of “horizontal equity,” that every district should in principle have access to equal amounts of resources.

However, the concept of equity has evolved to also embrace “vertical equity”—simply stated, “to each according to his need.” Students with extra learning needs require extra resources to meet established learning expectations. Thus, the extent of learning needs a community’s school-children exhibit and the cost of the extra services to meet those needs must be appropriately accounted for in a school funding formula. This evolution has come about largely as a result of education research which definitively shows that disadvantaged students need many more resources if equal educational opportunity is to be afforded them. Thus, in Connecticut, where high-needs students are concentrated in low-wealth communities, the funding for those cities and towns would increase, as would it for every town concomitant with its student population.

What’s wrong with the current ECS formula? Here are the major problems:

- The ECS, as originally designed, intended for the foundation level to float upwards with rising regular education expenditures per need student (i.e., students weighted for poverty and other learning needs). This has not happened.
- Weights for learning needs were set at minimal levels, and have remained so over the years. No weight was added for special education students when that grant was folded into the formula in 1995-96, and the Excess Cost grant was capped. The additional cost of special needs students was not sufficiently addressed through the 19 percent (\$911) per pupil increase to the ECS foundation that accompanied that change.
- The subformula determining local wealth, modified over the years, has remained heavily skewed towards town grand lists as the primary measure of local fiscal capacity to support the schools. As a result, property-wealthy but modest-income communities that serve large proportions of high-need students (e.g., Stamford and Norwalk) have historically received very little ECS aid, and property-wealthy, high-income communities with few at-risk students (e.g., Avon and Westport) have received only token aid.

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<sup>23</sup> Numerous statistical measures of equity were also utilized in those days, most of which are now obviated by the concept of adequacy.

- The formula's State Guaranteed Wealth Level was reduced over the years. The SGWL is supposed to make it possible for towns to tax themselves at the same equalized rate to raise their share of the foundation. Originally set at twice (2.00) the median town's wealth so that half that town's foundation would come from the state, it is now 1.55. (The lower the SGWL the lower the state's share and overall contribution.) The base aid ratio, inversely related to the SGWL, was raised in 1999-2000 from zero to 0.06.<sup>24</sup>
- Notwithstanding the above formula workings, the ECS formula itself has not been employed in any meaningful way since 1999-2000. Currently, the funding system has deteriorated to "last year's allocation plus" the percentage increase specified by the legislature. This makes the state's school finance system unresponsive to changes in town fiscal capacity, and it ignores shifts in the location and concentration of disadvantaged (extra learning needs) students while making education funding subject to political whim.
- The ECS cap and hold harmless (stoploss) provisions, imposed in 1995-06 to further reduce state education spending, have added an onerous and seriously disequalizing element for towns. Over its 11 years, the cap has cost some towns a total of \$1.112 billion; others have gained \$500 million that they would not have received under the formula. The state's net savings, approximately \$612 million, was shifted as a cost to municipalities.<sup>25</sup>
- The ECS formula is not tied to inflation. The \$28.5 million inflation loss since the inception of the formula has meant double-digit percentage losses in per pupil allocations for many towns.<sup>26</sup>

*The Governor's Commission and her budget proposal do little to structurally improve the formula.* For example:

- **The proposal doesn't even get Connecticut back to the starting line it set nearly two decades ago.** After years of underfunding our school districts, this proposal only raises the foundation amount to the minimum needed to educate our students according to a formula created almost 20 years ago. Indeed, because the Governor's proposed yearly increases in ECS funding (\$200-300 million per year for 5 years) *are not calculated to account for inflation or population growth*, the increase for all practical purposes is for \$850 million by 2011-12—failing to meet even the Governor's own commitment to fund 50 percent of the cost of education.
- **The ECS foundation amount would continue to be set according to past expenditures rather than current costs.** The foundation would finally be set to where it should have floated automatically over the years, but it will still be based on what districts used to spend rather than what they should be spending to adequately meet the needs of students.

<sup>24</sup> The base aid ratio is 1 minus town wealth divided by SGWL, or 0.06, whichever is greater. This ratio is then multiplied by the foundation level (currently \$5,891) and the need (weighted) student count to calculate what the town should receive under the ECS. The ECS cap or hold harmless provisions then determine the actual allocation.

<sup>25</sup> The 10 towns whose ECS allocations have suffered the greatest cuts under the cap are Bridgeport, New Britain, East Hartford, Waterbury, New Haven, Stratford, Hamden, Meriden, West Hartford, and Manchester. Yet only Waterbury would receive a total 5-year increase that exceeds what has been lost from the cap over the past 11 years (no data available for Hamden and Manchester). The cap's negative impact on the smaller allocations going to small towns may have been equally havoc-producing.

<sup>26</sup> For example, Newtown's per resident pupil allocation since 1995-96 has decreased in value by 49 percent, North Haven by 43 percent, and Simsbury and Norwalk by 29 percent.

The annual budget battles between towns and their school districts, and in some communities fought out by referenda, attest to the disconnect between what's needed by the schools and what towns are willing and able to spend toward meeting those needs. This is why expenditure data provides an inaccurate measure upon which to base a foundation level, and why fundamental reform—not just funding a deficient formula—is necessary.<sup>27</sup>

- **The proposal provides no rational system for setting and updating student weights.** While weighted student counts would be improved under the Governor's proposal by allowing free/reduced price meal counts to replace the 1996-97 TANF counts currently being used, the proposal still fails to address the ECS's arbitrary, out-dated approach to weighting student needs.<sup>28</sup> The weight for limited-English-proficient students would be doubled, from 0.10 to 0.20, but there was no principled basis for choosing 0.20, and thus unsurprisingly it falls far short of what it actually costs to adequately serve the unique needs of these students. No weighting for special education students is included in the proposal, though the Excess Cost grant cap is eliminated.
- **The proposal does nothing to improve the formula mechanism that is supposed to distribute money equitably.** Indeed, by raising the minimum aid ratio from 6 to 10 percent (20 percent for Priority Districts), the wealthiest districts will receive a larger share of the resources than they are now. But without improving the town wealth calculation, base aid ratios will remain flawed for all towns.
- **The proposal allows the ECS to erode in real value just like the existing formula has done for the past decade.** No inflation factor was proposed to tie allocations to the CPI-U or to some other suitable index.
- **The proposal retains tinkering mechanisms.** One positive aspect is that the ECS cap would be lifted in FY08; whether any towns would be subject to hold harmless provisions is unclear, but that would presumably remain available. However, the phase-out of Priority School District grants, presumably due to a false assumption that the proposed increases adequately fund those 16 high-need school districts, is alarming and would penalize the very students the original ECS design was intended to help most. Elsewhere in the Governor's budget proposal, some of the ECS increases would be significantly diminished through the lowering of other grants that go to cities and towns.

***Governor Rell's proposal, while a welcome step in the right direction, does not even fully fund the formula, let alone fix its deep underlying flaws. And it is improbable that her proposed funding level would approach a 50/50 state/local share of education costs.***

By 2011-12, under the Governor's proposal, the annual ECS grant will have increased by \$1.1 billion, following the 5-year phase-in. This would result in the grant totaling \$2.771 billion, up from \$1.620 for this current school year. But ***SDE has already acknowledged past underfunding that today totals \$1.358 billion***, and the actual underfunding may have been

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<sup>27</sup> This is why education economists typically distinguish between "expenditures" and "costs." The terms are not equivalent in meaning.

<sup>28</sup> And to add insult to injury, cities and towns that serve the lion's share of the state's disadvantaged students would see their Priority District grants begin to be phased out in 2007-08, cut in half in 2010-11, and eliminated as of July 1, 2011.



substantially greater given the 16 continuous years of funding shortages.<sup>29</sup> Those school districts that suffered tremendous budget constraints over those years will now have to play “catch up” with the relatively modest increase the Governor proposes. Given the high cost of effective interventions—such as longer school days and a longer school year, smaller class sizes, intensive remediation for those who fall behind, full-day kindergarten, universal preschool, and extensive professional development—catch-up is simply improbable because of the continuing paucity of resources.<sup>30</sup> Even in districts that merely need to enhance their already strong basic offerings—e.g., by expanding gifted and talented programs, world languages, STEM programs (science/technology/engineering/math), advanced-level course offerings, and other curricular enhancements designed to challenge highly motivated students—those costs will require considerably more than the Governor’s funding would provide.<sup>31</sup>

The bottom line is that *even by implementing the Governor’s proposal, the ECS funding formula leaves Connecticut’s school funding system completely disconnected from the state’s high expectations for student learning, the desire by institutions of higher education to have incoming students equipped with basic skills, and the need for schools to graduate competent, creative, productive knowledge workers to fuel the state’s economy.*

## **Moving to an Adequacy Formula**

*The table at the end of this section compares the current formula, the Governor’s proposed formula, and CCJEF’s “adequacy” framework.<sup>32</sup>*

While an adequacy formula looks like the current foundation formula—in that it has a foundation and student need weightings, and then distributes funding to towns based on their wealth—its underlying principles are fundamentally different. An adequacy formula is essentially a student-needs formula, the components of which are tied to the estimated cost of providing the inputs necessary to meet state and federal education standards, as well as the state’s constitutional obligation to provide Connecticut children with meaningful educational opportunities. The foundation level represents the base cost of educating a student with average learning needs. Additionally, the formula provided revised weights for poverty, limited-English-proficiency, and special education that represent what it costs above the base amount to educate those high-need students.

The three separate adequacy models represent the cost of educational delivery aimed at meeting state goals in math and reading by most (about 95 percent) students, as ascertained by the resources specified by Connecticut educators in the Professional Judgment portion of the Augenblick, Palaich and Associates 2005 cost study. (See Introduction for more information on that study.) The APA study determined that base costs in Connecticut differ by district size (costs are higher for small districts), the marginal costs for adequately serving disadvantaged

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<sup>29</sup> Unfortunately, Commission members failed to inquire as to how that \$1.358 shortfall was calculated, and SDE never made the information public.

<sup>30</sup> These interventions are also “preventions,” in that they lessen the need for more intensive and costly interventions (such as special education services) as students progress through school. These interventions/preventions have been shown to increase the likelihood of student success in school and to help ameliorate the learning disadvantages caused by poverty and other extenuating circumstances.

<sup>31</sup> It is also noteworthy that these “accelerated learning” opportunities can also succeed with underperforming disadvantaged student populations, where adequate resources—especially gifted teachers—are in place to provide a culture of high academic press and intensive individualized and small-group learning support.

<sup>32</sup> Components of the Governor’s proposed formula are as outlined in HB1114.

students (costs decrease somewhat in larger districts) and high concentrations of poverty and related factors (costs are much greater in districts with poverty rates at 40 percent or more).

Three separate adequacy models are presented:

- All are based on “full adequacy”—i.e., full funding the APA study’s updated estimates of what it will take to get the vast majority of students to state goal.<sup>33</sup>
- All utilize the same resident student data underlying the current ECS formula and the Governor’s proposal (columns B and C, respectively). Counts of all special needs students were estimated using actual 2003-04 figures obtained for the 2005 adequacy cost study.<sup>34</sup> Poverty is measured in all three models by free/reduced price meals eligibility.<sup>35</sup> Special education weights are for three categories of handicapping conditions: mild, moderate, and severe, as per the APA adequacy study.
- All assume that other state grants (including Priority District grants, school readiness, early reading, family resource centers, summer school, extended school hours, bilingual, and after-school programs) would be eliminated, since the formula would generate the full cost of providing these important adequacy-related interventions.
- All use the 1.75 SGWL proposed by the Governor, but they retain the minimum base aid ratio of 0.06, which would continue for the state’s 13 highest-wealth towns. *Town wealth was revised to weight equally a town’s 3-year average Equalized Net Grant List per capita and its 1999 (Census) median household income.*<sup>36</sup> This new subformula has the effect of narrowing the base aid ratio range by raising the bottom (wealthiest) and slightly lowering the top (poorest).<sup>37</sup>
- All would provide *universal high-quality preschool* for all Connecticut 4-year-olds, as well as 3-year-olds with special learning needs and from low-income families. CCJEF’s reforms would spend annually more than 3.5 times what the Governor is proposing to add for high-quality preschool programs over the next 5 years to narrow the achievement gap before students enter kindergarten.<sup>38</sup>
- **Model A** — (Comparison Table, Column D) portrays a revised ECS formula similar to the Governor’s proposed update but inserting the adequacy foundation/base and

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<sup>33</sup> Note that this is one performance level higher than NCLB’s required “proficient” level, but this has been Connecticut’s “gold standard” since the mastery tests were first conceived.

<sup>34</sup> This was unfortunate but necessary due to CCJEF’s foreclosed access to internal SDE data, and the Department’s website did not contain data suitable for these purposes.

<sup>35</sup> This would require all parents to complete eligibility forms at the beginning of each school year, similar to mandated family emergency contact forms and medical information that are collected each September or upon new enrollment in a school. SDE would be expected to audit these records in a timely and systematic fashion.

<sup>36</sup> Appendix A describes the new town wealth calculation.

<sup>37</sup> Equity for the poorest municipalities is not significantly compromised, however, inasmuch as those municipalities will reap the benefits of realistic student weightings for their high-needs student populations.

<sup>38</sup> The Governor’s proposed 5-year investment of \$133.7 million in additional preschool slots and staff bonuses, most of which will go to support expansion of services and improved program quality in the highest-need Priority School Districts, is an extremely important investment that ought to be increased to include additional municipalities. Approximately \$490 million in annual preschool costs are subsumed in the CCJEF adequacy formula models, based on the 2005 adequacy cost study. Current state spending on preschool is not ascertainable due to CCJEF’s limited access to state data. That present state contribution should be subtracted from the “Net Additional State Revenue Required for Adequacy” calculations near the bottom of the comparison table provided on the following pages.

student weightings. The special education Excess Cost grant would continue to be outside the formula, but it would reflect the severe-needs weights from the APA study. This model calls for an increase in state ECS spending of approximately \$2.5 billion—or about \$1.4 billion more than the Governor’s proposed ECS increase—to bring the state’s share of districts’ operating expenditures up to 53.3 percent.

- **Model B** — (Column E) shows how an adequacy formula like Model A would work if all special education weights were included inside the formula. The Excess Cost grant would thereby be eliminated. This model calls for \$2.3 billion more in ECS spending, or \$1.2 billion more than the Governor’s proposed ECS increase, with the state’s share of operating expenditures reaching 49.2 percent.
- **Model C** — (Column F) maximizes equity for all students and towns by having the state pay 100 percent of the marginal costs for all extra-learning needs students. An audit trail should make clear that these funds are indeed being efficiently used for improving the performance of poor, LEP, and special education students. Under this scheme, only the foundation/base cost per resident pupil would be subject to town wealth equalization. This model is estimated to cost approximately \$3.5 billion more in ECS spending than today, or \$2.1 billion more than the Governor’s proposed increase. The state’s share of operating expenditures would rise to 62.9 percent.

***The required local share of adequacy would be lessened under all three models, though most dramatically by Model C.*** All communities would be free to contribute above their required amount, though a ceiling on above-adequacy local expenditures may be necessary at some point in the future to control spending disparities.

***All three models are scalable***—i.e., the state budget could stipulate that in a given year, a certain percent of full adequacy will be distributed according to the weighted student counts and new town wealth calculation. This represents the manner in which an adequacy formula would be phased in. ***Indeed, this revised method of determining aid distribution would improve adequacy and equity even within the current ECS formula structure, and it could be implemented independently and in advance of the adoption of a fully revamped formula.*** Nevertheless, an important goal is to ensure ***stability of funding*** for school districts and towns, enabling longer-term planning than is presently possible.

***CCJEF does not explicitly endorse one model over the others.*** Appendix A spells out key principles used in devising these models — principles that should be followed, whatever ECS reforms the legislature and Governor finally agree upon.

	A	B	C	D	E	F
1	<b>COMPARISON OF FORMULA REDESIGNS</b>					
2	<b>Summary of CCJEF Models ▶</b>			<i>Formula similar to Gov's proposal; state to pay 100% of all SPED severe needs costs via Excess Cost grant but eliminates threshold</i>	<i>Formula includes all SPED costs, eliminates Excess Cost grant</i>	<i>Formula excludes all needs weightings; state to pay 100% of weighted student costs for all districts</i>
3	<b>FORMULA ELEMENTS</b>	<b>CURRENT ECS FORMULA</b>	<b>GOV'S PROPOSAL</b>	<b>MODEL A</b>	<b>MODEL B</b>	<b>MODEL C</b>
4	<b>FOUNDATION</b>	<b>\$5,891</b>	<b>\$9,687</b>	<b>\$10,979 (Avg)</b>		
5	<b>Basis for Foundation Level</b> (Foundation = Base Cost of Educating a Student With No Extra Learning Needs)	Regular educ expenditures per need student of town where the 80th %tile student resided when all towns ranked on expenditures 3 yrs prior; formulated in FY94 to reduce spending disparities between districts	Updates current formula's foundation, which was never allowed to float upward as expenditures rose over the years	Adequacy cost study's estimates, based on Professional Judgment methodology; base cost/foundation varies by district size, so above figure is overall average Range = \$10,338 - \$11,969		
6	<b>RESIDENT STUDENT COUNT</b>	<b>565,564</b>	<b>Reduced; data N/A</b>	<b>565,564</b>		
7	<b>Resident Students</b>	Regular + SPED students + extra weighting for extended school year, tuition-free summer school, participation in Open Choice	Same as current formula but reduces resident count for districts sending students to interdistrict magnets	CCJEF models use current ECS resident student count because accurate (unweighted) numbers were unavailable		
8	<b>NEED STUDENTS</b>	<b>FY07 = 600,927</b>	<b>N/A</b>	<b>761,864</b>		
9	<b>Poverty</b>	FY97 Temporary Family Assistance (TFA) count x 0.25	Students eligible for free/reduced meals plus x 0.2189	Based on audited free/reduced lunch count 2 yrs previous (i.e., Oct 2005); poverty weighting varies by district size Weight varies between 0.34 and 0.62 Avg weight = 0.41 per free/reduced lunch child		
10	→ <b>Extra Cost of Poverty Students</b>	~ \$1,473 per poor child Current cost = \$75-80M	?	\$4,860 per poor child	Total = \$718M	\$718M (outside ECS)
11	<b>Limited-English Proficiency</b>	ELL students not funded under state's bilingual grant x 0.10	Weight increased to x 0.20	Uses state's student count method due to unavailability of better SDE data; weighting varies by district size Avg weight = 0.76 per LEP child		
12	→ <b>Extra Cost of LEP Students</b>	~ \$589 per LEP child Current cost = \$5M	~ \$1,937 per LEP child	\$9,016 per LEP child	Total = \$242M	\$242M (outside ECS)
13	<b>Special Education</b>	Folded into formula in FY96; no additional student weighting, but severe SPED eligible for Excess Cost grant if costs exceed 4.5 x cost of regular student expenditure but grant is capped and reimbursements rates are <100%	No student weighting in formula, as assumed sufficiently funded by updated foundation level; Excess Cost grant remains at 4.5 x threshold but state to then pay 100%	Mild and moderate SPED students weighted, based on size of district and category of disability; marginal costs for severe needs students would continue to be covered outside the ECS formula under Excess Cost grant, to be funded by state at 100% once student's costs exceed district's regular program per pupil expenditure Avg weight = 1.56	Formula includes weights for all SPED students based on size of district and category of disability, including severe needs; brings all SPED costs into ECS formula Avg weight = 2.17	All marginal SPED costs (like those for poverty and LEP) are covered 100% by state outside the ECS formula Avg weight = 2.17
14	→ <b>Extra Cost of SPED Students</b>	\$0 in formula + \$52M in Excess Cost grant	\$0 in formula + \$79M in Excess Cost grant by FY12	\$880M in formula + \$349M Excess Cost grant	\$1.228B in formula, No Excess Cost grant	\$1.228B (outside ECS)
15	<b>Remedial Students</b>	%age of mastery test scores at or below remedial performance x resident students x 0.25	?	Not included; inappropriate factor in formula		
16	<b>Poverty Concentration Factor</b>	Indirectly addressed via Supplemental Formula Aid	N/A	Weight = 0.121 added to resident pupil base/foundation districts with > 40% poverty students		
17	→ <b>Extra Cost Due to Concentrated Poverty/High Needs</b>	N/A	N/A	\$198M	\$198M (outside ECS)	
18	<b>OTHER FACTORS</b>					
19	<b>Regional Bonus</b>	Up to \$100 per "regional student"; FY07 = \$2.4M	?	Eliminated		
20	<b>Supplemental Formula Aid</b>	Based on concentrations of poverty and remedial students; FY07 = \$5.6M	Eliminated	Eliminated		
21	<b>Density Formula Aid</b>	For towns whose population density exceeds state avg; FY07 = \$5.5M	Eliminated	Eliminated		

	A	B	C	D	E	F
2	<b>Summary of CCJEF Models</b> ▶			<i>Formula similar to Gov's proposal; state to pay 100% of all SPED severe needs costs via Excess Cost grant but eliminates threshold</i>	<i>Formula includes all SPED costs, eliminates Excess Cost grant</i>	<i>Formula excludes all needs weightings; state to pay 100% of weighted student costs for all districts</i>
3	<b>FORMULA ELEMENTS</b>	<b>CURRENT ECS FORMULA</b>	<b>GOV's PROPOSAL</b>	<b>MODEL A</b>	<b>MODEL B</b>	<b>MODEL C</b>
22	<b>WEALTH MEASURES</b>					
23	<b>Town Wealth</b>	Based on property tax and income, favoring former: 3-yr avg of ENGL per need student and ENGL per capita x average of per capita and household income (each divided by that of highest town)	No change in way town wealth is calculated	New calculation weights equally a town's 3-yr avg ENGL per capita and 1999 (Census) median household income		
24	<b>State Guaranteed Wealth Level (SGWL) Factor for Aid Ratios</b>	Median town's wealth x 1.55 = \$212,306 (in original ECS, was set at 2.00 to ensure 50% aid ratio for town at median wealth)	1.75 = \$224,712	1.75 = \$224,712		
25	<b>Base Aid Ratio</b>	State aid %age inversely related to town's wealth; is greater of 0.06 or 1.00 minus town wealth divided by SGWL	Range narrows due to higher SGWL	Range narrows due to higher SGWL; results in lower aid ratios for poorest cities but raises aid ratios for all but very wealthiest towns Range = 0.06 - 0.76		
26	<b>Minimum Aid Ratio</b>	0.06 (45 towns)	0.10 (Priority Districts = 0.20 minimum)	0.06 (13 towns)		
27	<b>COST OF ADEQUACY (State, federal, local sources)</b>	<b>\$6.365B spent in FY06</b>	<b>??</b>	<b>\$8.897B*</b>		
28	<b>State's Share of Adequacy (Goal is ≥50%)</b>	State contributed \$3.183B (29%) in FY06 toward schools' net current operating expenditures (Not based on adequacy principles)	31.7% of current operating expenditures by end of 5-yr phase-in, excluding Early Childhood (unadjusted for inflation)	\$4.6B (53.3%)	\$4.4B (49.2%)	\$5.6B (62.9%)
29	<b>ECS Grant</b>	\$1.6B	\$2.8B by 2011-12	\$4.2B	\$4.4B	\$3.2B
30	<b>PLUS OTHER Costs Related to Adequacy But Funded by State Outside the ECS</b>	Numerous adequacy-related state grants outside the formula Cost = \$0.3B	Unclear; proposed increase in ECE funding, phase-out/elimination of Priority District grants in FY11	Eliminates adequacy-related state grants outside ECS except for 100% state funding of SPED Excess Cost Net Cost = \$0.1B	Eliminates all adequacy-related state grants outside the ECS formula, incl. SPED Excess Cost	All weighted (need) students funded outside ECS at 100%; eliminates other adequacy-related state grants Net Cost = \$2.0B
31	<b>ECS Grant Cap</b>	Caps with varying limits in effect since FY92; now limits growth of a town's ECS grant to a 2% increase over amount received previous yr (though legislature may appropriate funds over this amount) Current cap = \$52M (80 towns)	Eliminates ECS cap in FY08	Eliminated	Eliminated	Eliminated
32	<b>Hold Harmless/Stoploss</b>	\$136M (89 towns)	?	Eliminated	Eliminated	Eliminated
33	<b>SPED Excess Cost Reimbursement Threshold</b>	Threshold = 4.5 x district's previous year's Net Current Expenditures per Pupil (NCEP)	Threshold remains at 4.5 x	State to pay 100% of excess costs for severe needs students	No Excess Cost grant or threshold; students weighted within ECS formula	No threshold; all weighted (need) students, incl. SPED, funded at 100% by state outside the ECS
34	<b>Grant Cap on SPED Excess Costs</b>	N/A	Eliminated in FY08	Eliminated		
35	<b>NET ADDITIONAL STATE REVENUE REQUIRED FOR ADEQUACY (ECS + Other as Above)</b>	50% = Another \$1.3B + (Not based on adequacy principles)	\$1.1B in FY08 Phased in over 5 yrs (Not based on adequacy principles)	\$2.5B + Inflation factor Phased in over 6 yrs	\$2.3B + Inflation factor Phased in over 6 yrs	\$3.5B + Inflation factor Phased in over 6 yrs
36	<b>LOCAL SHARE OF ADEQUACY COSTS</b>					
37	<b>Minimum Expenditure Requirement (MER)</b>	MER = previous year's MER + new aid - resident student adjustment; local expenditures that do not count towards the MER include SPED costs, pupil transportation, debt service, capital expenditures, expenditures from federal grants or state grants other than ECS	For FY08, regular program expenditures of town must be ≥ those of town ranked 127 in FY06, when ranked in ascending order on regular program expenditures per pupil	Local MER = District's total adequacy figure MINUS State ECS aid (plus any weighted/needs student costs outside the formula) MINUS Related federal grants (NCLB, IDEA, etc.) Net cost to towns roughly estimated at \$4.3B (Model A), \$4.2B (Model B), and \$3.2B (Model C) + inflation factor Local current expenditures FY06 = \$4.2B / MER = \$3B During 6-yr phase-in, towns held harmless by state from having to contribute more than in FY07 + inflation <u>All</u> local monies invested in <u>operating costs</u> of schools to count towards MER		
38	<b>Notes on Data Limitations of This Table</b>	Legal constraints on access to internal SDE data and the ability to question fiscal staff limit the accuracy of the state figures. In particular, the lack of details of the Gov's proposal were problematic, as well as early childhood investments already being made by the state and not a part of the ECS formula. Thus state spending against those costs included in the adequacy models is probably greater than reflected, meaning that the gap between the adequacy figures and what's being proposed by Gov Reil may not be as distant as it here appears.				

# **RESULTS-BASED ACCOUNTABILITY: MAXIMIZING EDUCATION DOLLARS**

*Accountability is more than just a matter of common sense, political necessity, or fiduciary responsibility. Making certain that money matters in supporting improved student performance, high-quality teaching, and cost-effective school administration is essential to ensuring equal educational opportunity. Therefore, systemic accountability is an integral component of CCJEF's framework for adequately and equitably funding the public schools.*

Accountability is not a popular concept because it too often places blame on the against-all-odds teachers and administrators who serve in distressed school districts and/or on the failure of parents to provide nurturing, disciplined, education-focused homes for their children. The failures, however, are far more systemic in nature—years of wrong policy choices that have deepened the socioeconomic chasm that separates communities within this state and the nation, years of inadequate investment in PK-12 education necessary for growing a vibrant economy and sustaining informed citizen participation in democratic processes, years of inattention to the changing student populations and economic conditions within many small towns and mid-sized cities while the urban centers also grew increasingly distressed.

Modernizing Connecticut's fiscal infrastructure will only succeed in ensuring equal educational opportunity and quality schooling throughout the state if accountability elements of a **systemic** nature are put into place. Accountability rightly needs to reside at all levels of the public system, as suggested below:

1. ***Fiscal controls and reporting — Improvements in accounting systems, data collection and management, reporting practices, and transparency at both the state and local levels are urgently needed and fundamental to cost containment.***

## At the state level

- Agency calculations involving school finance, grand list and tax rate equalization, aggregate income tax collections, and all other fiscal manipulations associated with school funding to be routinely audited and the results publicly disseminated.
- Such performance/operations audits to include representatives of the non-governmental research community with relevant expertise.
- Audits to also weigh the need for additional data elements to be collected and reexamine current technology, operations procedures, and staffing patterns to ensure timely collection, analysis, application, and reporting of useful data.

## At the SDE level

- SDE to establish a mandatory common chart of accounts, with finely detailed web-based instructions, to assure apples-to-apples reporting practices and improved transparency.

- SDE fiscal staff to proactively provide formative guidance to school district financial officers, especially to new appointees and those leading large districts; onsite consultations to be routine, and more frequent for the most fiscally distressed districts.

#### At the local level

- School districts (in conjunction with the mandatory common chart of accounts) to institute formalized cost-accounting practices that track school- and program-level expenditures. This is essential in examining the cost effectiveness of different grade configurations, magnet programs, small learning communities, charter schools, etc.
- Every magnet school and charter school provider to be required to provide the same complete school-level fiscal data; they should not be exempted from any of the fiscal or data reporting requirements of regular school districts.
- School districts to be required to post their annual budgets as Acrobat (.pdf) files on their websites or the SDE website; these documents should be understandable to parents and the general public.

## 2. ***Data needs — Improvements in the collection, analysis, reporting, and uses of non-fiscal data are fundamental to improved teaching, learning, and administration and to cost containment.***

#### At the state level

- Careful examination to be conducted, with outside research-community input, of current data being collected and the accuracy and timeliness of that data, additional data needs, and the technology and staffing needs for improving the state’s data infrastructure upon which so many public policies, programs, and valuable analyses depend.<sup>39</sup>

#### At the SDE level

- Comprehensive student-level database consistent with National Center for Education Statistics data-collection protocols to be functioning forthwith; SDE is years behind other states in this arena. ***Important note:*** Without such a statewide system, appropriately sophisticated research methodologies (e.g., value-added measures and other more complex analyses) cannot be utilized to properly examine student outcomes and/or the relationship of spending to those outcomes. ***Examining what works best with certain student populations in certain school contexts and certain levels of investment is imperative***—and that requires a state-of-the-art data warehouse and staff with impeccable research credentials.<sup>41</sup>

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<sup>39</sup> See “Data Limitations” section of this document.

<sup>41</sup> It is likely that data collection needs extend beyond SDE’s current data warehouse plans.

- Adequate funding must be accompanied by adequate research and evaluation of the impact of those dollars and the changes they trigger; such research needs to be ongoing (formative evaluation), so as to provide valuable feedback to better target investments and refine programs and practices to improve their effectiveness, rather than to merely measure results after years of increased spending and uncertain outcomes (summative evaluation).

#### At the local level

- Schools and districts to significantly improve the collection, analysis, public dissemination, and use of data to guide school improvement and target the necessary resources thereto. Every classroom teacher to be trained and supported in the uses of data for improving instructional practices.<sup>42</sup>
- Expanded collection of useful data to include, e.g., post-graduation/ longitudinal tracking of students, satisfaction surveys of parents and middle/high school students, documented exit interviews for all students and teachers leaving the system, and student progress indicators using measures that are not test-based.

3. ***Comprehensive cost-effectiveness studies*** — *These in-depth programmatic and fiscal audits aim at accelerating school improvement districtwide, identifying what is and is not working well within that district and, as appropriate, recommending the strategic redirecting of funds to maximize desired outcomes, and specifying areas in which savings to state and local taxpayers can be realized.* Such studies are imperative for cost containment and for informing local and state education policymaking.

#### At the state level

- Departments of Children and Families and Corrections, both of which operate state-funded school districts, to have their school operations undergo comprehensive cost-effectiveness studies as described below.

#### At the SDE level

- SDE to encourage/invite and pay for 4-6 specific districts per year to undergo the comprehensive cost-effectiveness studies/audit described below conducted by a prominent non-Connecticut education consulting firm. During the initial 2-3 years, SDE to participate in the studies as on-the-job training for assuming responsibility within the Department at the contract's end and/or to build capacity to conduct greater numbers of such studies across the state annually.<sup>43</sup>

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<sup>42</sup> Indeed, in its early meetings, the CCJEF accountability workgroup focused considerable time and study on district-level accountability practices, acknowledging that a focus by districts on continuous improvement of teaching, learning, and administration is basic to any accountability system.

<sup>43</sup> Comprehensive cost-effectiveness audits that have been conducted at the behest of governors, legislatures, and school districts in other states have been immensely successful in producing recommendations that have saved millions of dollars and redirected millions more to programs/strategies that promise a greater impact on student learning. One mid-Atlantic state governor is employing such audits for the purposes of guiding the turnaround of that state's lowest performing districts.



- SDE in Year 1 to undergo a similar comprehensive cost-effectiveness study of headquarters and program management practices, staffing levels, technology capabilities/needs, etc.—aimed at providing the State Board of Education and Education Committee of the General Assembly with a professional and unbiased description of what is required to strengthen the agency and accelerate its transformation from reactive compliance mode into a proactive leadership role.
- State’s Technical High School system to be included in the below-described comprehensive cost-effectiveness studies.

At the local level

- 4-6 districts per year to volunteer or consent to participate in comprehensive cost-effectiveness studies that examine fiscal, programmatic, and managerial operations in schools and each district’s central office.

4. ***School finance oversight board*** — ***Ensuring that money matters in turning around low-performing districts and their schools, helping them avoid increasingly severe NCLB sanctions that could lead to state takeover, using resources to close the achievement gap, and ensuring substantially equitable educational opportunities are serious issues of monumental statewide import and therefore deserve a permanent legislative focus.***

At the state level

- Connecticut General Assembly to establish ***a permanent Commission on School Finance*** to act as an oversight authority on the functioning of the state’s school finance system and to advise the Education Committee and State Board of Education in such matters. Advisory role to include the workings of the formula and distribution mechanism for all allocations. Oversight role to include review of SDE calculations pertaining to the distribution of funds, management of the comprehensive cost-effectiveness studies described above, and fiscal approval of all school/district improvement plans submitted by those identified by SDE as “in need of improvement.” At least one-half of the Commission’s bipartisan membership to come from outside state and local government and be Connecticut citizens with school finance and/or school reform expertise who are also able to work one-on-one with the lowest-performing school districts.

At the SDE level

- Serve ex-officio on the Commission on School Finance, collaborate fully in the important but challenging work to be accomplished, and analyze/provide data as appropriate.

At the local level

- Boards of education, district offices, and school-level personnel from schools or districts identified as “in need of improvement” to cooperate/collaborate

with the Commission on School Finance in seeking to strategically redirect dollars in ways that matter most in improving student performance. Local needs and community wishes to be respected by the Commission but not necessarily always heeded, especially in lowest-performing districts.

5. **Strengthening the nexus between policymakers, the schools, and the cost of education adequacy** — *More effective ways of grounding policymaking in the realities of schooling across the state must be found.* The education community and local school boards need opportunities to “show and tell” the challenges they face daily, as well as to demonstrate their many accomplishments. Legislators will benefit from insights and ideas that can stem from a first-hand experiencing of a few days in classrooms and school hallways.

At the state level

- Consider setting aside a number of days per year in which Education, Appropriations, and Revenue Committee members and House and Senate majority and minority leadership are expected to spend time observing in school classrooms, meeting with students and faculty, interviewing district administrators and board of education members in a diverse array of schools/districts across the state.

At the SDE level

- Consider requiring all senior SDE staff and State Board of Education members to spend a number of days per year visiting schools in various kinds of districts, solely to listen, observe, engage in dialogue (i.e., not in the course of their ordinary consulting work). Number of days/schools/districts to be at least double what is expected of legislators.
- Consider offering training programs for local school board members and other interested citizens in those aspects of school finance important for improving local spending decisions.

At the local level

- Consider designating a number of hours per month for board of education and elected municipal officials (CEO and council/selectmen/boards) to visit local schools and a number of days per year to make similar visits to neighboring districts that markedly differ from their own.
- Consider designating a number of hours per legislative session for every board of education member, central office senior administrator, school principal, and elected municipal official to engage in substantive dialogue with their local legislative delegation regarding, for example: (a) which school funding needs are most urgent, and why; (b) how new state monies are producing progress in the schools; and (c) what changes in state policies could most advance continuing progress.

## **Applying the Legislature’s RBA Tool**

Over the previous couple of years, the Appropriations Committee of the General Assembly has encouraged state agencies to institute Mark Friedman’s Results-Based Accountability model as a planning and budgeting tool to aid the legislature in making difficult funding decisions. The standardized budget presentation format will foster improved targeting of limited state resources and better serve the overarching goals of state programs.

The RBA tool similarly serves as a valuable guidepost for the systemic school finance reform that is the focus of CCJEF’s efforts. In the coming few weeks, CCJEF members, in consultation with legislative consultants (the Charter Oak Group), will complete RBA templates, share them with interested legislators and others, and post them on the CCJEF website.<sup>44</sup>

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<sup>44</sup> We appreciate this opportunity to be the first nonprofit organization in the state to adopt this important accountability tool, and thank the Appropriations Committee for extending to us the opportunity to participate in the training and technical assistance alongside interested (non-pilot) state agencies.

# REBALANCING CONNECTICUT'S REVENUE PORTFOLIO

Connecticut state and local government together generate more than *85 percent of their tax revenue from just three taxes: the sales tax, the income tax, and the property tax.*

Combinations of changes in these three taxes are the likely sources of additional funding to fulfill the state's constitutional obligation to provide adequate and equal educational opportunity.

The burden of state and local taxes in Connecticut, as a share of household income, ranks *42<sup>nd</sup> of the 50 states in the nation, and the burden on businesses ranks 40<sup>th</sup>.* Connecticut, in fact, has *nearly the highest fiscal capacity in the nation and among the lowest efforts.*<sup>45</sup> The state has the capacity to raise significant additional revenue to make investments in its future.

Below are six options that would generate the funding needed for educational adequacy. Each option shows the approximate amount of revenue that the particular combination of changes in the revenue portfolio would generate. Each option also calculates the net tax burden, which in each case is significantly lower than the revenue stream the new tax framework would generate for the state. This reflects an estimation of the offset from reduced federal income tax liabilities. *All options in the CCJEF framework shift the primary burden for funding the schools from the local property tax to a more diverse set of state-level revenue sources.*

## Revenue Options<sup>46</sup>

<i>Option 1: Income and Sales Tax Changes Only</i>	<i>Billion \$</i>
Sales Tax: 5.3% on the entire base	\$2.29
Less \$150 million for a refundable tax credit for low income households	- 0.15
Income Tax: Four new brackets:	\$2.38
5.75% up to \$150K	
6.5% up to 200K	
7.25% up to 500K	
8.75% over \$500K	
	<b>Total Revenue Raised = \$4.52</b>
Net cost to taxpayers after reduction in federal taxes	\$3.71
	(Percent of total = 82.1%)

Option 1 relies on the two traditional major sources of state revenue and does not impose a statewide property tax. These two revenue sources are more volatile, though often faster growing, than property taxes

<sup>45</sup> Based on the research of Dr. Robert Tannenwald, Research Economist, Federal Reserve Bank of Boston.

<sup>46</sup> Because data are drawn from 2004, all calculations have been increased by 13% to reflect growth over 2.5 years to thus equal the approximate conditions in 2007.

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<b><u>Option 2: Balanced Three Tax Sources</u></b>	<b><i>Billion \$</i></b>
Sales Tax: 4.75% rate on the entire base of sales, net (see fn)	\$1.61
Less \$100M for a refundable tax credit for low-income households	- 0.10
Income Tax: Three new brackets: 6.50% over \$500K	\$1.52
7.75% over \$1M	
9.25% over \$2M	
Property Tax: 2.8 mills (0.28%) on all property	\$1.48
<b><u>Total Revenue Raised = \$4.51</u></b>	
Net cost to taxpayers after reduction in federal taxes <sup>47</sup>	\$3.71
	(Percent of total = 82.2%)

Option 2 secures funding from a broad base of sources, providing greater stability in revenues over time. It also lowers the current sales tax rate, which should improve compliance.

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<b><u>Option 3: Income Tax Emphasis</u></b>	<b><i>Billion \$</i></b>
Sales Tax: 5% on current base + 60% of current exempt base	\$ .87
(Continues to exempt food, some clothing and other major categories; it would probably fail to satisfy the requirement for Internet taxes)	
Income Tax: Four new brackets: 6.0% over \$100K	\$2.35
7.0% over \$200K	
8.0% over \$500K	
9.0% over \$1M	
Property Tax: 2.5 (0.25%) mills on all property	\$1.32
<b><u>Total Revenue Raised = \$4.54</u></b>	
Net cost to taxpayers after reduction in federal taxes	\$3.49
	(Percent of total = 76.9%)

Option 3 provides a greater sourcing from those with a greater ability to pay and a lesser emphasis on the more regressive sales tax to raise the needed revenue. It also has the highest rate of federal offset through itemization. But income is more cyclical than other revenue sources and the sales tax less stable because of the narrow base.

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<b><u>Option 4: Property Tax Emphasis</u></b>	<b><i>Billion \$</i></b>
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<sup>47</sup> The incidence tax rate for income taxes is 35%. For property taxes, it is 19%.

Sales Tax:	4% on the entire base	\$0.68
	Less \$100M for a refundable tax credit for low-income households	- 0.10
Income Tax:	Three new brackets:	
	6.2% over \$500K	\$1.29
	7.4% over \$1M	
	8.6% over \$2M	
Property Tax:	5 mills (0.5%) on all property	\$2.64

***Total Revenue Raised = \$4.51***

Net cost to taxpayers after reduction in federal taxes \$3.60  
(Percent of total = 78.9%)

Option 4 relies more heavily on the more stable property tax source. Historically, however, property taxes have grown more slowly than educational expenditures.

***Option 5: Sales Tax Emphasis***

***Billion \$***

Sales Tax:	5.5% rate on the entire base:	\$2.54
	Less \$150 million for a refundable tax credit for low-income households	- 0.15
Income Tax:	Three new brackets:	
	6.25% over \$500	\$1.34
	7.50% over \$1M	
	8.75% over \$2M	
Property Tax:	1.5 (0.15%) mills on all property	\$0.79

***Total Revenue Raised = \$4.52***

Net cost to taxpayers after reduction in federal taxes \$3.91  
(Percent of total = 86.3%)

Option 5 relies on the sales tax, which is more regressive than the income tax, which can result in lower-income people paying more as a percentage of their incomes than those in higher-income brackets. This can be offset with an aggressive implementation of the Earned Income Tax Credit program in Connecticut to parallel the existing federal EITC. State EITC programs currently operate in about two dozen states. An alternative would be a refundable tax credit equal to the tax paid on expected expenditures by low-income households in areas such as clothing and other necessities. Revenue shown here deducts \$150 million for such a refundable tax credit. This option has the highest net cost of the six options outlined.

**Option 6: Primary Emphasis on Income and Property Taxes** ***Billion \$***

Sales Tax:	4% on the entire base	\$0.68
	Less \$100M for a refundable tax credit for low-income households	- 0.10
Income Tax:	Five new brackets:	\$2.38
	5.75% up to \$150K	
	6.5% up to 200K	
	7.25% up to 500K	
	8.75% over \$500K	
	Plus elimination of property tax credit:	\$ .30
Property Tax:	17.5 mills (1.75%) on business and motor vehicles + 5.75 mills (0.575%) on all other property, net of re-imbursement to municipalities	\$1.91
	Less \$500M for a homestead exemption on \$40,000	\$ .67

**Total Revenue Raised = \$4.50**

Net cost to taxpayers after reduction in federal taxes \$3.58  
(Percent of total = 79.6%)

Option 6 is the boldest of the above scenarios, imposing significant changes in the structure of state taxes. It also eliminates the property tax credit against the state income tax—the cost of which, measured in foregone revenue, is about \$300 million, although households see only about \$220 million in true benefit, inasmuch as the credit results in increased federal liabilities.

Option 6 assumes pre-emption of all local property taxes on business and industrial property and of motor vehicle and business personal property tax, replacing these local taxes with uniform statewide rates. ***The state would fully reimburse all municipalities for the foregone revenue resulting from the pre-emption***—and, in addition, pay communities the tax due on the first \$40,000 of assessed value for owner-occupied housing. Because the mortgage market calculates borrowers’ ability to pay to include property taxes, this option will make entry-level housing more affordable for lower-income households, thereby encouraging home ownership. In time, the increased home ownership should also contribute to improved educational outcomes, thereby helping to contain the cost of meeting education adequacy funding targets.

Uniform statewide property tax rates will take differential mill rates out of consideration by businesses in choosing where to locate and will eliminate the incentive to register motor vehicles in low-tax municipalities. This change directly supports smart growth principles, to which Governor Rell and the General Assembly have expressed a strong commitment.

This is the only option that would directly reduce local property tax burdens. It is also the only option presented here that addresses incentives for owner-occupied housing. Although it does entail increasing property taxes on businesses and motor vehicles in some localities, it does so in the name of ***equity and smart growth***. Through the homestead exemption on the first \$40,000 in assessed value, it also ***makes entry-level housing more affordable in every municipality***.

Appendix B provides additional discussion of taxation issues and provides tables showing federal marginal rates and comparative state income tax rates.

# **APPENDIX A**

## **PRINCIPLES OF SCHOOL FINANCE REDESIGN**

### **CCJEF'S REVISED TOWN WEALTH MEASURE**



# **Connecticut School Finance System Reform Principles**

There is widespread agreement that Connecticut's school finance system is broken — that the burden on local property taxes is untenable and the state is not fulfilling its constitutional obligation to provide school districts with the resources needed to support continued progress toward important 21<sup>st</sup> century education goals. These goals are the standards established by state and federal policy, the knowledge and skills needed to effectively fuel the economy and create a vibrant, informed citizenry that participates in democratic processes within an increasingly multicultural society.

The future of this state and our nation depends on how well all our young people are educated. Connecticut's educational community is committed to improving institutional practices so that increasing proportions of students achieve state academic goals and enter college, the workplace, and life fully equipped to succeed.

Consistent with these ambitions and the overarching goal of equal educational opportunity, Connecticut's school finance system must provide school districts with the necessary resources, time, and other support to do the job. Toward this end, the following principles are offered as initial guidelines for reforming the funding system.

## **KEY PRINCIPLES**

**Simple Formula Based on the Real Cost of  
Quality Education**

**Adequacy**

**Equity**

**Efficiency and Accountability**

**Fair Rebalancing of Local and State**

## **Simple Formula Based on the Real Cost of Quality Education**

- Under the Connecticut constitution, all children, regardless of their town of residence, family wealth, or other circumstances, have the constitutional right to receive a suitable and substantially equal public school education.
- The formulas governing state aid should directly relate to the actual cost of serving students and ensuring equal opportunity to a high-quality education. The formulas must also reflect fair and equitable measures of local needs and fiscal capacities.
- Revenue/tax structures necessary to sustain equal educational opportunity should rely less on local property wealth and more on taxpayers' ability to pay.
- Connecticut's school finance system must be sufficiently transparent that parents and other taxpayers can readily understand all aspects of its mechanisms.
- School administrators need and deserve stability and predictability of revenues. Education funding should not necessitate annual budget battles between towns and boards of education or parents and non-parents; neither should state allocations be dependent upon excessive district/town lobbying of legislators. A school finance system is formula-driven, and that formula should not be subjected to annual revisions that skew equity, under-fund education mandates, disregard legitimate educational needs, and undermine faith in the inherent fairness and efficacy of state allocation processes.

## **Adequacy**

- "Adequacy" is defined as those resources necessary for meeting the standards and performance expectations established by the Connecticut State Board of Education for students and schools. Adequate resources include quality pre-school programs, full-day kindergarten, after-school and summer programs, staffing commensurate with the learning needs of students, appropriate depth and breath of curriculum and instructional materials, up-to-date technology, remediation and enrichment opportunities, services for special education and English-language learners, gifted and talented programming, extracurricular offerings, pupil transportation, modern and safe facilities, etc.<sup>48</sup>
- Determining the cost of educational adequacy should not be a political exercise. Rather, the cost of adequacy is best determined by means of established social science research methods that have been recognized as valid methodologies in courts across the nation. (The adequacy cost study commissioned by the Connecticut Coalition for Justice in Education Funding utilized two such methodologies: Successful School Districts and the Professional Judgment model.)

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<sup>48</sup> Note that the CCJEF model formulas and their costs do not include pupil transportation or capital/facilities, in that the focus of the 2005 adequacy cost study (and of the ECS formula itself) is solely on districts' current operating costs. Operating costs, however, do include routine maintenance and operations of buildings and grounds.

## **Equity**

- Connecticut’s school finance system should meet equity standards consistent with the *Horton v Meskill* and *Sheff v O’Neill* decisions. The system should also satisfy commonly used statistics for measuring school finance equity.
- Financial resources to school districts should be adjusted according to known factors that impact the cost of providing equal educational opportunity, including the characteristics of the student population served, the cost of operations in different areas of the state, district size, and significant increases or decreases in student enrollment.

## **Efficiency and Accountability**

- Connecticut’s school finance system should encourage efficiency in terms of improved student results and lower costs. The public must be assured that:
  - financial resources are managed responsibly, actions are encouraged to control and reduce costs, and overall operational efficiency is encouraged;
  - resources are allocated purposefully within school districts to produce desired results, which include the closing of achievement gaps and accelerated improvement in graduation rates and other learning outcomes by students in low-performing school districts;
  - exemplary performance, both in terms of student results and efficient operations, is recognized; and
  - the system effectively intervenes and reverses unsatisfactory performance.
- The effectiveness, sufficiency, and fairness of Connecticut’s finance system — including the cost of adequacy, pupil needs adjustments, regional cost factors, and grants outside the formula — should be closely monitored outside the political arena, and with an unwavering focus on maximizing student success.
  - Formula data elements pertaining to enrollment, student characteristics, town wealth factors, the inflation rate, and other factors should be updated annually.
  - The system as a whole should be formally evaluated and updated on a regular schedule. Any interim revisions by the legislature that impact the formula and the allocations it automatically generates should only be possible through a super-majority vote, and only after inviting public opinion via specially convened regional public hearings.

## **Fair Rebalancing of Local and State Contributions**

- Local communities should contribute revenue toward the operations of their public schools. However, similar local tax efforts supporting education should generate substantially similar local revenue. This principle of “tax power equalization” is essential to the financing of equal educational opportunity and fundamental to any state-aid equalization formula.
- Each community’s required local contribution to the district’s operating budget should be calculated as follows: Adequacy level minus state ECS grant (and other state grants relating to adequacy) minus federal grants (all those related to education adequacy) equals a town’s minimum local contribution (i.e., the MER). Expenditures included under the MER would thus include special education costs; pupil transportation, food services, and adult education spending should also be examined for possible inclusion once their adequacy costs are determined. The state’s contribution should be statutorily earmarked as education spending — i.e. towns must treat the ECS grant as 100 percent pass-through monies to their boards of education.
- Unequalized local contributions (i.e., above the level of adequacy) should be encouraged, inasmuch as these additional monies can advance local educational priorities and provide curricular enrichment. However, such supplemental local funding should be closely monitored, lest funding inequities across districts reach an unacceptable level.
- Overall, *the state’s contribution to the operating expenses of public school districts* (i.e., those costs reported to the U.S. Department of Education as “Net Current Expenditures”) *should a minimum of 50 percent*, though a long-term target of as much as 80 percent may be optimal for ensuring quality schooling for all Connecticut students.
- Overall, the state should provide no less than 50 percent of the combined state and local financial support of the public school system. This includes the total cost of PK-12 operating, pupil transportation, adult education, capital/facilities, and other expenditures.
- Within the above “Equity” and “State Contribution” parameters, every school district should receive a minimum state grant of no less than \$1,000 per resident student or not less than the marginal costs of its disadvantaged (extra learning needs) students, whichever is greater.<sup>49</sup>
- Changes to, or the elimination of, categorical programs (i.e., those grants funded outside the ECS) should only be made if it is clear that the needs that led to their creation have been adequately addressed via the new formula or can be met through other means.

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<sup>49</sup> The CCJEF model formulas did not apply this minimum allocation concept, given the lack of current student counts for the 13 districts that would still have 6 percent base aid ratios under the adequacy models presented here. However, the cost of such a provision would be minimal, inasmuch as total resident enrollment in those districts amounts to approximately 40,000. The cost of the \$1,000 per resident student minimum and the marginal costs of disadvantaged students in those districts is roughly equivalent, just \$8 million.

## CCJEF's Revised Wealth Measure

The revised wealth measure used in the CCJEF simulations combined town property wealth and income in a significantly different way than is currently used in the ECS formula. Given the limitations of the data available (see Data Limitations section below), the computation is as follows.

1. The average equalized net grand list (ENGL) for the years 2001/02/03 for each town is divided by the adequacy count of special needs students and the 2003 town population. The two results are then averaged. (Both the average ENGL and the town population are figures used in the 2007 ECS formula calculations.)
2. Median household income from the 2000 Census (i.e., 1999 data) was used as the income measure.<sup>50</sup> (This was not lowered by averaging it with median per capita income, as the current formula does.)
3. The ratio of the town's property wealth to the average town property wealth is then computed.
4. Then, the ratio of the town's median household income to the average town median household income is computed.
5. The two ratios in 3 and 4 above are then averaged to create the average wealth ratio.
6. Finally, if 1 minus the average wealth ratio divided by the state guaranteed wealth level (SWGL) is less than .06, then the base aid ratio is .06. If 1 minus the average wealth ratio divided by the SWGL is greater than .06, then the base aid ratio is simply 1 minus the average wealth ratio divided by the SWGL. SWGL was set at 1.75. (In the current formula, SGWL is set at 1.55, though the Governor's proposal would raise it to 1.75.)

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<sup>50</sup> CCJEF suggests using an average of household income data by town for the most current 3 years for which data are available. Those town-by-town income averages should be provided by the Department of Revenue Services based on state income tax returns. No such data were available. Town population figures are also inaccurate, inasmuch as they currently are reported to include individuals living in group quarters (such as students and prisoners).

# **APPENDIX B**

## **REVENUE REBALANCING DISCUSSION**

# More on Revenue Rebalancing

## Principles

In developing the six revenue options, CCJEF focused on three key principles:

- Each option should offer a balanced range of revenue streams to fund fully PK-12 public education, including discussing the reliability of each stream, its net cost, and its relationship to other important policy initiatives, specifically the impact on incentives for owner-occupied housing and smart growth.
- Each option should attempt to improve equity, on a town-by-town basis and an individual ability-to-pay basis.
- Each option should be evaluated for its cost of administration, both public and private, for its compatibility with national requirements for imposing sales tax on internet purchases, and for its potential impact on economic competitiveness.

## Sales, Income and Property Taxes as Revenue Sources

Each of the three revenue streams – income, sales and property taxes -- has distinctive qualities:

- **The sales tax** is relatively stable, especially if imposed on the broadest base possible. The more exemptions that are built into the sales tax, the more vulnerable it becomes to the vicissitudes of economic cycles. Base on data for fiscal 2005, Connecticut exempts a large share of the potential base--some \$46.7 billion, nearly 42.5% of total purchases— from the sales tax, those foregoing \$2.6 billion in potential revenues at the current 6 percent rate. A significantly lower rate imposed on the full base would generate more revenue and also meet the requirements for collecting the sales tax on internet sales. Connecticut currently loses about \$500 million in revenue just in that one area.
- **The income tax** is the least stable of the revenue streams, primarily because of the substantial presence of capital gains and bonus pay, elements that vary dramatically with economic cycles. Individual income taxes, however, typically have relatively little impact on a state's economic competitiveness. It is also the tax that is most directly linked to ability to pay. Moreover, the income tax enjoys the highest offset against federal taxes — making restructuring the income tax preferable to an over-emphasis on sales or property taxes, since ***an income tax increase will result in the lowest net household burden*** as measured by total taxes.
- **The property tax** is the most stable source of revenue, but is imposed without regard to the incomes of property owners and thus, if unadjusted, tends to be regressive. Those on fixed incomes, particularly retirees, typically find the property tax onerous. Nevertheless, broadly and fairly considered, property ownership is one legitimate measure of wealth, whether of households or businesses.

Businesses generally consider stability of the tax structure more important than the rates.<sup>51</sup> Successful business strategies and planning decisions demand, above all things, a predictable environment over multiple years, including a credible commitment on the part of government to a stable fiscal environment. Connecticut achieved much in this direction during the 1990s, only to damage its credibility with a series of changes during the recession earlier this decade. The lesson: A simple, transparent fiscal system with a credible commitment to its stability will minimize the impact on economic competitiveness, so long as tax rates are not dramatically out of line with those in other jurisdictions.

## **Sales Tax**

Connecticut collected sales tax in 2004 on about \$64 billion in transactions for of a total potential base of \$110 billion. In other words, Connecticut taxes less than 58 percent of the potential base. (See end of Appendix for estimates of the value of current sales tax exemptions.)

In evaluating the revenue potential of the sales tax, it is important to be mindful of the following:

- The relative narrowness of the current sales tax base makes it less stable because it relies more heavily on the segment of transactions that tend to vary with the business cycle. Broadening the base increases the stability of collections because it includes more sales less affected by economic cycles.
- Connecticut imposes a significantly higher rate than would be needed to generate revenue from the full base. Research suggests that sales tax rates of over 5 percent generate some significant tax avoidance. Thus Connecticut already loses out on some potential revenue simply because of its 6 percent tax rate.
- Connecticut's sales tax does not conform to the agreed requirements for the collection of sales tax on Internet sales, which necessitates a flat, no-exemptions sales tax. Thirteen states are now in conformity with these requirements; six more will be in compliance by 2008. Some 600 Internet merchants now voluntarily collect sales tax for these states. At current rates, Connecticut loses approximately \$500 million in sales tax revenue because of its failure to conform to the federal requirements.
- The current sales tax structure, with its multiple exemptions, is more costly for businesses to collect and for the state to supervise than a simple, across-the-board tax would cost. Tax simplification would both raise new revenue and reduce administrative costs for all.
- The benefits of exempting, for example, food and some clothing purchases overwhelmingly accrue to higher-income households, who spend much more on exempt items than do lower-income households. Bureau of Labor Statistics family budget data from the Northeast show that low-income households (those with annual incomes under \$20,000) spend about \$2,250 a year on food in the home and less than \$1000 on

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<sup>51</sup> Based in part on research from the state and local tax analysis group, which the Pew Charitable Trust is funding.



clothing.<sup>52</sup> Connecticut's current sales tax exclusion thus saves these households, individually, less than \$200 annually, and collectively less than \$64 million.

Considering just those households with income over \$70,000, who spend \$5,172 on food in the home and another \$1,839 on clothing (assuming that only half of the clothing purchases are subject to sales tax), the current exclusion saves these households nearly \$200 million in Connecticut taxes. If the current exclusion is aimed at helping low-income households, rather than benefiting high-income families, then the appropriate policy would be to provide a refundable income tax credit, either—for simplicity—to everyone, or only to lower-income households, with a phase-out at an appropriate level.

**The principal objection to taxing the state's entire sales base of goods and services is the regressivity of the sales tax — i.e., that lower-income households spend a larger share of their income on taxable items and thus pay more tax relative to their incomes than do higher-income households. But in imposing no sales tax on food and some clothing purchases, for example, higher income families save far more in taxes than low income families would have paid. Thus the principal benefit of the exemption goes not to lower-income households, but to higher-income households. The regressivity can be redressed via refundable income tax credit or a state Earned Income Tax Credit.**

A table near the end of this Appendix provides a listing of current sales tax exemptions and their value.

## **Income Tax**

The income tax is currently the largest source of state revenue. Approximately 85 percent of Connecticut taxpayers itemize their federal tax returns, substantially reducing their federal tax liability; in aggregate, about 90 percent of the state income tax is thereby itemized.

To understand the impact on households of raising income tax rates, it is therefore imperative to look at the *net* impact — i.e., to consider how much the increased state income tax payment would be offset by an increased reduction in federal income taxes. As incomes rise, the federal marginal rate rises, so the federal tax liability covers a greater and greater share of the state income tax. At its maximum, the federal income tax rate is 35 percent; taxpayers subject to this rate see their federal tax go down by \$0.35 for every additional dollar paid in state income tax. Another way to think of this: for every dollar Connecticut collects, high-income taxpayers pay only \$0.65; the federal government, in essence, pays the balance.

The Connecticut income tax is a wonder of simplicity compared to income taxes in most other states. Taxpayers find it easy to calculate, and the state finds it easy to monitor. But the single

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<sup>52</sup>Bureau of Labor Statistics, *Consumer Expenditure Survey, 2004*. Available online at <http://www.bls.gov/cex/>.

uniform rate to which most taxpayers are subject results in a state income tax that is regressive overall.

**Because of the offset in federal taxes, the current framework for the income tax becomes regressive at higher incomes. Thus, as a matter of equity, Connecticut should impose higher rates on higher incomes, recognizing this rising offset against federal taxes. If, in addition, Connecticut adopted the commonly accepted standard that higher incomes means a greater capacity, even responsibility, to support public services and public investments, the logical outcome would be a series of rising marginal rates instead of the current flat rate.**

Both federal marginal rates and a separate discussion of state income taxes, with a chart showing all state incomes taxes nationally, are include at the end of this appendix.

## **Property Tax**

The property tax is the largest and most stable single source of government tax revenue in Connecticut. The value of property is broadly linked to income; those municipalities with the highest property values are also typically the communities with the highest mean income. For that reason, property taxes form a major component of the public revenue portfolio throughout the nation. Nevertheless, it is an imprecise measure of wealth that, in the case of owner-occupied homes, has no necessary link to the income needed to pay the taxes on that property. Moreover, as incomes rise, housing becomes a smaller share of household wealth. Thus property tax is almost inevitably regressive, even if a state applies a uniform rate to all residential property.

**A principal problem with the property tax as it functions in Connecticut is that it varies dramatically between communities, with high-tax municipalities imposing rates nearly six times those imposed in low-tax municipalities. High-tax communities have relatively poor fiscal capacity but make a large fiscal effort; the reverse is true of low-tax communities, which have high capacity, low effort.**

The dramatic inequity in tax burden between Connecticut municipalities influences a variety of location decisions, particularly by businesses. This drives municipalities to pursue “beggar thy neighbor” development strategies, and to adopt policies inimical to affordable housing, which might add to school enrollments and thereby drive up mill rates. Collectively, these influences induce sprawl, lead to poor land use decisions, degrade the quality of life in Connecticut, and leave many communities with too few resources to meet the legitimate learning needs of their schoolchildren.

Additionally, current state tax policy neither promotes nor facilitates an increase in the rate of owner-occupied housing in core urban areas. The current income tax credit for property taxes is not refundable; it does not help lower-income households meet the cost of owning a home. Yet

research argues strongly that raising the rate of owner-occupied housing would improve all social indicators, including educational outcomes.

**A strong housing policy, accompanied by improved tax policies, would help mitigate some of the very factors that drive up the cost of meeting the challenge of achieving equity in educational outcomes.**

The principal objection to the property tax is that, as noted above, it bears no direct relationship to the ability to pay. Clearly, there are some households, particularly retired persons on fixed incomes, for whom the property tax can be particularly burdensome. The state does have a “circuit breaker” for property taxes, but it is set at a fairly high level and, as a policy, does nothing to promote owner-occupied housing. Because a high proportion of lower-income households reside in Connecticut’s core urban areas, which necessarily impose the highest mill rates, and because many of these families are also not homeowners, the actual impact of the property tax in Connecticut is particularly regressive. Despite high mill rates in these urban areas and the substantial state aid their schools already receive, these municipalities are unable to provide a level of funding that enables them to provide an adequate education consistent with the standards set by the state.

The property tax does enjoy, like the income tax, some offset through reduced federal income taxes because it is itemizable. More than 685,000 households in Connecticut itemized their property tax in 2004 when calculating their federal income tax returns; they claimed more than \$3.5 billion in those taxes, or more than two-thirds of the total residential and motor vehicle taxes collected across the state.<sup>53</sup> As with the state income tax, this ensures an offset through reduced federal taxes, particularly for higher-income taxpayers who pay the highest federal marginal rates. Yet this compounds the regressivity of the Connecticut tax environment. There is also a modest offset for middle-income households through the property tax credit on the state income tax, which reduced income tax receipts by \$267 million in 2004. However, this has the effect of increasing middle-income taxpayers’ federal liabilities due to the lower aggregate itemization of these households on the federal returns, reducing the true value of the state property tax credit to less than \$200 million. Moreover, the non-refundable credit does virtually nothing to incentivize home ownership; it has no apparent link to a clear public policy objective, excepting some minor (unanalyzed) impact on the regressive nature of property taxes.

Connecticut also applies the property tax to motor vehicles and business personal property. Both categories of property, unlike homes, buildings, and land, are taxed on their market value rather than their assessed value as of the year of assessment. The result is a strong incentive for individuals to register their cars in low-tax municipalities and for businesses to locate based, in part, on tax rates rather than on maximizing profit by access to a quality workforce and existing local infrastructure. One approach that would eliminate these pathologies would be to pre-empt these local taxes with a uniform state rate.

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<sup>53</sup> The itemization would also include property taxes paid in other jurisdictions (e.g., second homes); it would not include property taxes paid on commercial vehicles, which are a significant share of the motor vehicle grand list. OPM does not separate the grand list for motor vehicles between personal and commercial.

## **Weighing All Options**

Given these considerations, one option to be weighed in any revenue portfolio rebalancing is whether to institute statewide property taxes. This could take the form of (a) a simple add-on applied to all properties, (b) state pre-emption of local property taxes on motor vehicles and business personal property, or (c) state pre-emption of local property taxes on commercial and industrial property as well as all vehicles and business personal property. Such pre-emption would eliminate at a stroke the most pernicious element of the current property tax framework driving bad land use and development decisions at the municipal level. Adoption of a statewide property tax framework should also include policies to mitigate the regressive nature of the property tax and to encourage owner-occupied housing for lower-income households.

Again, to effectively monitor the tax system, and maintain a balanced revenue portfolio, researchers need to examine the interactions between different tax regimes, and accurately evaluate which populations and business sectors bear certain tax burdens. The result of such tax incidence analysis is a comprehensive understanding of what the true aggregate tax burden—federal, state, and local—is in Connecticut. Without such an analysis, which has never been undertaken in this state, it is impossible to gauge the actual burdens or their impact on communities and the state's economic competitiveness.<sup>55</sup>

## **Making the Most of Federal Funds**

Connecticut has, for 15 years, denied its citizens and public programs millions in federal funding. The 1991 spending cap legislation—i.e., the spending cap with which we live, not the constitutional cap adopted in 1992 that was implemented—includes federal funds under the limit the cap imposes. Thus, accepting federal money does not increase the total funding available to support state and local programs. Given that federal funds typically come targeted to specific objectives, accepting Federal funds reduces the discretion that the Legislature and Governor exercise over spending.

Inclusion of federal funds in the legislative spending cap is strange. The purpose of the spending cap was to control state spending as a way to limit increases in state taxes. Foreclosing access to federal funds does not support the core objective of the legislative spending cap (nor would it make sense under an implemented constitutional cap).

The result of this approach is unsurprising: In 19 of the 29 areas of federal grants, Connecticut receives less than its expected share based on population. Only New Hampshire does worse among northeastern states. Both New York and Rhode Island are twice as successful as Connecticut in securing federal monies. It is time to adopt a coherent approach to securing federal funds, and this can help support PK-12 education and many other important state needs.

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<sup>55</sup> For a general discussion of tax incidence analysis, see Institute on Taxation and Economic Policy, *An Introduction to Tax Incidence Analysis*. Available online at <http://www.itepnet.org/pb23inc.pdf>.

## **Federal Marginal Income Tax Rates, 2006**

	<b>10%</b>	<b>15%</b>	<b>25%</b>	<b>28%</b>	<b>33%</b>	<b>35%</b>
<b>Single</b>	<b>0 - 7,550</b>	<b>7,550 - 30,650</b>	<b>30,650 - 74,200</b>	<b>74,200 - 154,800</b>	<b>154,800 - 336,550</b>	<b>336,550 and Up</b>
<b>Married .– Filing Jointly</b>	<b>0 - 15,100</b>	<b>15,100 - 61,300</b>	<b>61,300 - 123,700</b>	<b>123,700 - 188,450</b>	<b>188,450 - 336,550</b>	<b>336,550 and Up</b>
<b>Head of Household</b>	<b>0 - 10,750</b>	<b>10,750 - 41,050</b>	<b>41,050 - 106,000</b>	<b>106,000 - 171,650</b>	<b>171,650 - 336,550</b>	<b>336,550 and Up</b>
<b>Married .– Filing Separately</b>	<b>0 - 7,550</b>	<b>7,550 - 30,650</b>	<b>30,650 - 61,850</b>	<b>61,850 - 94,225</b>	<b>94,225 - 168,275</b>	<b>168,275 and Up</b>

## Comparative State Income Taxes

- 41 states, plus the District of Columbia, apply an income tax.
- 7 states do not collect a state income tax of any kind; 2 states limit the income tax to dividend and income only.
- The range of state income taxes, both in terms of the number of brackets and rates, varies substantially. Brackets vary from a single bracket in 6 states to 10 brackets in Missouri.
- Single-bracket states have rates that range from 0.36% in Iowa to 6% in North Carolina.
- Residents begin to pay taxes on incomes as low as \$500 in Alabama. In Vermont, taxes begin at incomes of \$29,900 for single filers and \$49,650 for joint filers.
- In Alabama and Maryland, the top brackets kick in from income as low as \$3,000. In New Jersey and New York, the top bracket begins at \$500,000.
- Residents of New York City pay a top marginal rate of 10.5%.
- Personal exemptions also vary widely, from as \$700 for single filers in Wisconsin, to \$12,750 for single filers in Connecticut.
- Rhode Island is the only state that computes its state income tax as a percentage of the federal liability, current 25%. Given that the top federal marginal rate is 35%, the state imposes a marginal rate of 8.75%.

Here's how Connecticut compares to its neighbors on the basis of the *top marginal rates*:

Connecticut:	5.0% on incomes over \$10,000 (single) or \$20,000 (joint)
New Jersey:	8.97% on incomes over \$500,000
Massachusetts:	5.3% flat rate on all income over minimums of \$3,575 or \$7,150
New York:	6.85% over \$500,000; residents of New York City: 10.5%
Rhode Island:	8.75% on incomes over \$168,275 (single) or \$336,550 (joint).
New Jersey:	8.97% on incomes over \$500,000
New Hampshire:	No income tax except on interest and dividend income
Vermont:	9.5% over \$326,450

Similar patterns exist in three (competing) states to which Connecticut, and New England as a whole, has lost jobs:<sup>58</sup>

North Carolina:	8.25% on incomes over \$120,000
Georgia:	6.0% on incomes over \$7,000
Iowa:	8.98% on incomes over \$57,106

Even these three impose rates significantly higher than Connecticut, despite their fairly low income bases. Then, too, New York City is in the midst of a dramatic economic revival. Thus *income tax rates do not seem to be a significant factor in economic competitiveness*. Because taxpayers can itemize state and local taxes (both income and property) on federal returns, the true burden on filers is less than the marginal rates suggest, since (depending on their federal marginal rate), it lowers the federal tax.

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<sup>58</sup> The New England Council, *Sustainable Prosperity—An Agenda for New England*. Prepared by A.T. Kearney. Available at <http://www.newenglandcouncil.com/atKearneyReport.php>.

# STATE INDIVIDUAL INCOME TAXES

(Tax rates for tax year 2006 — as of January 1, 2006)

State	---Tax Rates---		# of Brackets	--Income Brackets--		---Personal Exemption---			Federal Tax Ded.
	Low	High		Low	High	Single	Married	Child.	
ALABAMA	2.0	- 5.0	3	500 (b)	- 3,000 (b)	1,500	3,000	300	*
ALASKA	No State Income Tax								
ARIZONA	2.87	- 5.04	5	10,000 (b)	- 150,000 (b)	2,100	4,200	2,300	
ARKANSAS (a)	1.0	- 7.0 (e)	6	3,399	- 28,500	20 (c)	40 (c)	20 (c)	
CALIFORNIA (a)	1.0	- 9.3 (x)	6	6,319 (b)	- 41,477 (b)	87 (c)	174 (c)	272 (c)	
COLORADO	4.63		1	----Flat rate----		-----None-----			
CONNECTICUT	3.0	- 5.0	2	10,000 (b)	- 10,000 (b)	12,750 (f)	24,500 (f)	0	
DELAWARE	2.2	- 5.95	6	5,000	- 60,000	110 (c)	220 (c)	110 (c)	
FLORIDA	No State Income Tax								
GEORGIA	1.0	- 6.0	6	750 (g)	- 7,000 (g)	2,700	5,400	3,000	
HAWAII	1.4	- 8.25	9	2,000 (b)	- 40,000 (b)	1,040	2,080	1,040	
IDAHO (a)	1.6	- 7.8	8	1,159 (h)	- 23, (h)	3,300 (d)	6,600 (d)	3,300 (d)	
ILLINOIS	3.0		1	----Flat rate----		2,000	4,000	2,000	
INDIANA	3.4		1	----Flat rate----		1,000	2,000	1,000	
IOWA (a)	0.36	- 8.98	9	1,269	- 57,106	40 (c)	80 (c)	40 (c)	*
KANSAS	3.5	- 6.45	3	15,000 (b)	- 30,000 (b)	2,250	4,500	2,250	
KENTUCKY	2.0	- 6.0	6	3,000	- 75,000	20 (c)	40 (c)	20 (c)	
LOUISIANA	2.0	- 6.0	3	12,500 (b)	- 25,000 (b)	4,500 (i)	9,000 (i)	1,000 (i)	*
MAINE (a)	2.0	- 8.5	4	4,550 (b)	- 18,250 (b)	2,850	5,700	2,850	
MARYLAND	2.0	- 4.75	4	1,000	- 3,000	2,400	4,800	2,400	
MASSACHUSETTS (a)	5.3		1	----Flat rate----		3,575	7,150	1,000	
MICHIGAN (a)	3.9		1	----Flat rate----		3,100	6,200	3,100	
MINNESOTA (a)	5.35	- 7.85	3	20,510 (j)	- 67,360 (j)	3,300 (d)	6,600 (d)	3,300 (d)	
MISSISSIPPI	3.0	- 5.0	3	5,000	- 10,000	6,000	12,000	1,500	
MISSOURI	1.5	- 6.0	10	1,000	- 9,000	2,100	4,200	1,200	* (s)
MONTANA (a)	1.0	- 6.9	7	2,300	- 13,900	1,900	3,800	1,900	* (s)
NEBRASKA (a)	2.56	- 6.84	4	2,400 (k)	- 26,500 (k)	103 (c)	206 (c)	103 (c)	
NEVADA	No State Income Tax								
NEW HAMPSHIRE	State Income Tax is Limited to Dividends and Interest Income Only.								
NEW JERSEY	1.4	- 8.97	6	20,000 (l)	- 500,000 (l)	1,000	2,000	1,500	
NEW MEXICO	1.7	- 5.3	4	5,500 (m)	- 16,000 (m)	3,300 (d)	6,600 (d)	3,300 (d)	
NEW YORK	4.0	- 6.85	5	8,000 (n)	- 500,000 (n)	0	0	1,000	
NORTH CAROLINA (o)	6.0	- 8.25	4	12,750 (o)	- 120,000 (o)	3,300 (d)	6,600 (d)	3,300 (d)	
NORTH DAKOTA	2.1	- 5.54 (p)	5	29,700 (p)	- 326,450 (p)	3,300 (d)	6,600 (d)	3,300 (d)	
OHIO (a)	0.712	- 7.185	9	5,000	- 200,000	1,300 (q)	2,600 (q)	1,300 (q)	
OKLAHOMA	0.5	- 6.25 (r)	8	1,000 (b)	- 10,000 (b)	1,000	2,000	1,000	* (r)
OREGON (a)	5.0	- 9.0	3	2,650 (b)	- 6,550 (b)	159 (c)	318 (c)	159 (c)	* (s)
PENNSYLVANIA	3.07		1	----Flat rate----		-----None-----			
RHODE ISLAND	25.0% Federal Tax Liability (t)								
SOUTH CAROLINA (a)	2.5	- 7.0	6	2,570	- 12,850	3,300 (d)	6,600 (d)	3,300 (d)	
SOUTH DAKOTA	No State Income Tax								
TENNESSEE	State Income Tax is Limited to Dividends and Interest Income Only.								
TEXAS	No State Income Tax								
UTAH	2.30	- 7.0	6	863 (b)	- 4,313 (b)	2,475 (d)	4,950 (d)	2,475 (d)	* (u)
VERMONT (a)	3.6	- 9.5	5	29,900 (v)	- 326,450 (v)	3,300 (d)	6,600 (d)	3,300 (d)	
VIRGINIA	2.0	- 5.75	4	3,000	- 17,000	900	1,800	900	

WASHINGTON	No State Income Tax												
WEST VIRGINIA	3.0	-	6.5		5	10,000	-	60,000		2,000	4,000	2,000	
WISCONSIN	4.6	-	6.75		4	8,840	(w)	132,580	(w)	700	1,400	400	
WYOMING	No State Income Tax												
DIST. OF COLUMBIA	4.5	-	9.0	)	3	10,000	-	30,000		1,370	2,740	1,370	

Source: The Federation of Tax Administrators from various sources.

- (a) 15 states have statutory provision for automatic adjustment of tax brackets, personal exemption or standard deductions to the rate of inflation. Massachusetts, Michigan, Nebraska and Ohio indexes the personal exemption amounts only.
- (b) For joint returns, the taxes are twice the tax imposed on half the income.
- (c) Tax credits.
- (d) These states allow personal exemption or standard deductions as provided in the IRC. Utah allows a personal exemption equal to three-fourths the federal exemptions.
- (e) A special tax table is available for low income taxpayers reducing their tax payments.
- (f) Combined personal exemptions and standard deduction. An additional tax credit is allowed ranging from 75% to 0% based on state adjusted gross income. Exemption amounts are phased out for higher income taxpayers until they are eliminated for households earning over \$56,500.
- (g) The tax brackets reported are for single individuals. For married households filing separately, the same rates apply to income brackets ranging from \$500 to \$5,000; and the income brackets range from \$1,000 to \$10,000 for joint filers.
- (h) For joint returns, the tax is twice the tax imposed on half the income. A \$10 filing tax is charge for each return and a \$15 credit is allowed for each exemption.
- (i) Combined personal exemption and standard deduction.
- (j) The tax brackets reported are for single individual. For married couples filing jointly, the same rates apply for income under \$29,980 to over \$119,100.
- (k) The tax brackets reported are for single individual. For married couples filing jointly, the same rates apply for income under \$4,000 to over \$46,750.
- (l) The tax brackets reported are for single individuals. For married couples filing jointly, the tax rates range from 1.4% to 8.97% (with 7 income brackets) applying to income brackets from \$20,000 to over \$500,000.
- (m) The tax brackets reported are for single individuals. For married couples filing jointly, the same rates apply for income under \$8,000 to over \$24,000. Married households filing separately pay the tax imposed on half the income.
- (n) The tax brackets reported are for single individuals. For married taxpayers, the same rates apply to income brackets ranging from \$16,000 to \$20,000.
- (o) The tax brackets reported are for single individuals. For married taxpayers, the same rates apply to income brackets ranging from \$21,250 to \$200,000. Lower exemption amounts allowed for high income taxpayers. Tax rate scheduled to decrease after tax year 2007.
- (p) The tax brackets reported are for single individuals. For married taxpayers, the same rates apply to income brackets ranging from \$49,600 to \$326,450. An additional \$300 personal exemption is allowed for joint returns or unmarried head of households.
- (q) Plus an additional \$20 per exemption tax credit.
- (r) The rate range reported is for single persons not deducting federal income tax. For married persons filing jointly, the same rates apply to income brackets that are twice the dollar amounts. Separate schedules, with rates ranging from 0.5% to 10%, apply to taxpayers deducting federal income taxes.
- (s) Deduction is limited to \$10,000 for joint returns and \$5,000 for individuals in Missouri and Montana, and to \$5,000 in Oregon.
- (t) Federal Tax Liability prior to the enactment of Economic Growth and Tax Relief Act of 2001.
- (u) One half of the federal income taxes are deductible.
- (v) The tax brackets reported are for single individuals. For married couples filing jointly, the same rates apply for income under \$49,650 to over \$326,450.
- (w) The tax brackets reported are for single individuals. For married taxpayers, the same rates apply to income brackets ranging from \$11,780 to \$176,770. An additional \$250 exemption is provided for each taxpayer or spouse age 65 or over.
- (x) An additional 1% tax is imposed on taxable income over \$1 million.



## **Primary Connecticut Exemptions for Sales and Use Tax: Estimated Foregone Revenue in FY05<sup>59</sup>**

	<b>Millions \$</b>
Sales to Nonprofit Organizations (Lease, Labor, & Goods) (Excludes the Children's Hospital, John Dempsey Hospital, nonprofit hospitals and nursing and rest homes, and pilot-test credit for E-commerce donations to higher education)	700
Sales of food products for human consumption	275
Prescription medicines, syringes and needles	200
Motor vehicle fuel	175
Cloth or fabric purchased for non-commercial sewing	120
Machinery used in manufacturing	100
Fuel for heating purposes	100
Newspapers and magazines	60
Computer and data processing	58
Coupons and discounts; battery deposits; trade-ins of a like kind; trade-ins of core products	45
Trade-in of motor vehicles, snowmobiles, vessels or farm tractors	40
Services between parent companies and subsidiaries	30
Motor vehicles purchased by non-residents to use out-of-state	30
Sales to Title XVII or XIX of Social Security Act or CHAMPUS	20
Advertising	20
Non-prescription drugs and medicines	15
Renovation and repair of residential property	15
Component parts for assembly of manufacturing machinery	10
Production materials	10
Commercial trucks, trailers and combination, and commercial vehicles used in interstate commerce	10
Patient care services	10

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<sup>59</sup> Data from the General Assembly's Office of Fiscal Analysis Connecticut Tax Expenditure Report, August 30, 2004; available at <http://www.cga.ct.gov/ofa/Documents/RevItems/TaxExp/TaxExp2004.pdf>.

## DATA LIMITATIONS

- ***What the adequacy costs include:*** Resources addressed in the adequacy cost study and those described in this document pertain solely to school district operating expenses. Not included are costs related to pupil transportation, adult education, food services, land, buildings, capital, debt service, magnet or charter schools, the state’s Technical High School operations, the Teachers’ Retirement Board contributions, State Department of Education operations, or other state-funded school districts (operated by the Department of Children and Families and Correction).
- ***Access to SDE data posed an unnecessary hurdle:*** As of November 2006, CCJEF was foreclosed from access to internal State Department of Education (SDE) data until certain legal issues in *CCJEF v Rell* are settled. Although this is routine, CCJEF had sought to prevent this lawsuit from taking such a hostile turn, particularly inasmuch as all data in question are considered to be in the public domain and the SDE employees who are best able to answer complex fiscal questions receive their salaries from taxpayers. The Attorney General’s Office prevailed, however, and as a result, figures reported in the Formula Redesign portion of this document are tentative. SDE website fiscal data and student counts appear in several locations within the Department’s web pages; frequently those figures vary from one web page to the next, and often lack clear dates or descriptions of what the costs include. Moreover, matching school district data to towns is challenging, given the number of regional districts, and there was no clean way of doing this without experienced SDE guidance. Finally, town spending related exclusively to Net Current Expenditures had to be constructed from suspect figures appearing on Strategic School Profiles. In the end, every effort was made to properly identify state spending on other adequacy-related grants, but again, the incompleteness of website information limited the thoroughness with which that task could be validated. Should state policymakers wish to explore more thoroughly the adequacy models included herein, CCJEF staff would be pleased to assist in that process.
- ***Access to state income data would have been helpful:*** Unfortunately, the Department of Revenue Services does not release town-by-town average income figures from state income tax filings. As a result, the new town wealth formula suggested herein relies on 8-year-old (Census, 1999) data. According to the Center for Population Research at the University of Connecticut, “the Decennial Census ... does not accurately reflect income for the wealthiest and poorest towns. Specifically, income is *overstated* for the lowest income towns. In contrast, income for the highest income towns is *understated*.”<sup>60</sup> Similarly, population counts for towns ought to be corrected for the group quarters residents (prisoners, students, etc.) that artificially inflate some municipalities’ populations. Whatever town wealth calculation is employed, it is imperative that accurate income data be used for each town. Inasmuch as it is merely town-wide averages that are needed, confidentiality should not pose an obstacle. In addition, an education cost index that takes into consideration the varying cost of teacher and administrator salaries and usual cost-of-living differences (e.g., housing)

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<sup>60</sup> Center for Population Research, “How Census Income Estimates Provide Misleading Statistics on Personal Income for Connecticut Towns,” Occasional Paper No. OP 2006-01 (February 2006), p. 1.

by geographic region ought to be constructed for the state and utilized in all education-related grant distribution formulas.

- ***Much state data is either outdated or unavailable.*** As already noted, SDE has contradictory or incomplete information on its web pages<sup>61</sup>. The Department of Revenue Services does not provide basic, aggregated data at the municipal level, nor does it provide reasonably fine-grained breakouts of income by income cohorts. DRS has also failed to provide updated information on tax collections, only offering information that is more than 2 years out of date. The Office of Policy and Management lags significantly in making available equalized grand list information; ENGL is currently only available through 2004, even though it is a straightforward statistical algorithm to update that information soon after the end of each calendar year.
- Finally, ***the state does not itself undertake to develop critical tools for evaluating property tax policy and proposed legislation that might affect tax burdens.*** Comprehensive tax incidence analysis identifies the real burden on taxpayers of all taxes—percent federal, state, and local, including pass-through of all business taxes.

The overall result of absent, poor, or outdated data and the absence of a commitment to comprehensive analysis of impacts is that organizations like CCJEF (and even private-sector or university-based economists) can only provide approximations of program costs and tax burdens. Without a healthy policy environment that is better informed through improved data systems and the ability of non-government researchers to conduct independent analyses, Connecticut will surely find itself increasingly unable to understand, let alone address, the critical challenges it faces now and in the future. The state could increasingly lose out to other states and regions that have committed themselves to strong policy processes.

***In sum, the figures presented in this framework are estimates—close approximations rather than precise calculations. Nevertheless, members of CCJEF and its consultants have devoted great time and care in arriving at the analyses presented here.***

***CCJEF does not explicitly endorse the three adequacy models or the six revenue rebalancing options.*** Certainly there are many other suitable scenarios that could have been painted here. CCJEF members hope that this work will stimulate new thinking by all those concerned with how to fund a public school system for our schoolchildren, the quality of their schooling experience, their long-term economic prospects, and the kind of society that we collectively seek to create.

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<sup>61</sup> By overall design and comprehensiveness, however, it is among the better websites of departments of education across the nation.

# **ACKNOWLEDGEMENTS**

This framework is the product of three CCJEF workgroups formed in September 2006 to draft equitable and fiscally responsible proposals aimed at securing adequate and equitable funding of Connecticut's public schools via school finance formula redesign, state/local revenue portfolio rebalancing, and effective accountability mechanisms at both the state and local levels. Some 70 individuals collaborated in the effort—including municipal officials, educators and school board members, representatives of professional associations, unions, advocacy groups, parents, and others from across Connecticut.

Among the many individuals who deserve special thanks for bringing this framework together are the chairs of the three workgroups:

## ***School Finance Redesign***

Dr. Randall Collins, Superintendent, Waterford Public Schools  
Prof. Brian Perkins, Chairperson, Educational Leadership and Policy Studies, Southern Connecticut State University

## ***State/Local Revenue Rebalancing***

Lee Erdmann, Chief Operating Officer, City of Hartford  
Dr. Lyle Wray, Executive Director, Capital Region Council of Governments

## ***Results-Based Accountability***

Dr. Joshua Starr, Superintendent, Stamford Public Schools  
Archie Elam, Member, Stamford Board of Education and Director, Business Development/Strategic Planning, HS Land Systems, United Technologies

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**If you think education is expensive,  
try ignorance!**

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This document will soon be posted on CCJEF's website, [www.ccjef.org](http://www.ccjef.org)