Finance Subcommittee on Primary and Secondary Education

Testimony in Support of the Proposed Fair Funding Plan for Ohio's Schools - Distribution Model

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Co-Chairmen Cupp and Patterson and members of the House Finance Subcommittee on Primary and Secondary Education. My name is Michael Hanlon, and I am Superintendent of the Chardon Local School District located in Geauga County. Joining me is my colleague, Jared Bunting, Chief Finance Officer of the Trimble Local Schools of Athens County as well as Mike Sobul, Chief Finance Officer of the Granville Exempted Village Schools. Mr. Bunting and I served as co-chairpersons of the Distribution Subcommittee of the Cupp-Patterson School Funding Workgroup. Our testimony today is offered in support of the proposed Fair Funding Plan for Ohio's Schools developed over an fifteen-month period of time by a dedicated group of legislators, school leaders, education finance experts and consultants -

specifically we will focus on the proposed model for the distribution of funds to each of Ohio's school districts.

The first portion of our presentation will focus on the current model used to distribute funds to school districts. Mr. Bunting will provide an overview of what the committee believes is a more rational, understandable and more effective method of accomplishing this objective. Mr. Sobul will provide information concerning district data gathered from initial simulations of the proposed distribution mechanism.

The Distribution Committee focused its efforts on evaluating Ohio's current method of dispersing funds appropriated by the Ohio Legislature to each of Ohio's 610 public school districts. There are clear, undeniable differences among these school districts including relative property wealth, income factors, needs within distinct student populations, physical geography and many other factors that impact the need of a school district in order to effectively educate their students.

While the method currently employed to determine how available funds should be allocated to each district attempts to take into account relative capacity to generate local revenue, the result is a methodology this is cumbersome and fails to provide a rational, understandable and predictable results and fails in providing school leaders and fiscal officers the information necessary to make effective planning and management decisions for their school districts. In fact, very few school officials fully understand the current distribution model and, therefore, are illequipped to make the necessary forecasting and management decisions demanded of them by the Legislature and their local communities. In addition, the number of school districts that fall into either cap or guarantee status provides further evidence that the current distribution model is ineffective at best.

We will not use today’s time to detail the current funding distribution model - a basic overview is provided in our testimony document. By way of a simplified background, R.C. 3317.017 provides the methodology for the current State Share Index (SSI) Calculation as follows:

<u>Current State Share Index</u>   <u>(SSI) Calculation</u>

First, calculate the district’s <u>valuation index</u>.

The district's three-year average valuation / the district's total ADM) / (the statewide three-year average valuation for school districts with a total ADM greater than zero / the statewide total ADM)

Next, calculate the district’s <u>median income index</u>.

The district's median Ohio adjusted gross income / the median of the median Ohio adjusted gross income of all districts statewide with a total ADM greater than zero

Next, calculate the district's <u>income index</u>, which equals the following sum:

(The district's median income index X 0.5) + {[(the three-year average federal adjusted gross income of the school district's residents / the district's formula ADM for fiscal year 2017) /

(the three-year average federal adjusted gross income of all districts statewide with a formula ADM for fiscal year 2017 greater than zero / the statewide formula ADM for fiscal year 2017)] X 0.5

Determine the district's <u>wealth index</u> as follows:

(1) If the district's income index is less than the district's valuation index and the district's median income index is less than or equal to 1.5, then the district's wealth index shall be equal to [(0.4 X the district's income index) + (0.6 X the district's valuation index)].

(2) If the district's income index does not meet both of the conditions described in (1) of this section, then the district's wealth index shall be equal to the district's valuation index.

Finally, Determine the district's <u>state share index</u> as follows:

(1) If the district's wealth index is less than or equal to 0.35, then the district's state share index shall be equal to 0.90.

(2) If the district's wealth index is greater than 0.35 but less than or equal to 0.90, then the district's state share index shall be equal to { 0.40 X [(0.90 - the district's wealth index) / 0.55]} + 0.50.

(3) If the district's wealth index is greater than 0.90 but less than 1.8, then the district's state share index shall be equal to { 0.45 X [(1.8 - the district's wealth index) / 0.9]} + 0.05.

(4) If the district's wealth index is greater than or equal to 1.8, then the district's state share index shall be equal to 0.05.

This approach to distribution of state funding to school districts attempts to adjust, or level, the state share of funding for relative income and property valuation levels among school districts in an effort to achieve an equitable level of state support. However, there are shortcomings with this approach.

Concerns Associated with Current Distribution Model

- Volatility. The current SSI is not updated annually, but rather every two years (with each new biennium)
- Instability. A district's funding levels can be impacted by changes in statewide averages. Districts are not compared to themselves for funding determinations.
- The approach is overly-dependent on property valuation. Under the current distribution mechanism, between 60 and 100 percent of local funding sharing is derived from local property valuation, while 0 to 40 percent is determined by income levels.
- Inconsistency. The model produces inconsistent results based on sometimes unintended interactions between property valuation and income. Mr. Sobul is best equipped to speak to this issue should you require more information.
- The current methodology simply doesn't work. Only 18 percent of Ohio school districts receive funding as calculated by the formula. The remaining districts are on either a cap or guarantee.

In an era of stringent fiscal accountability where school officials and boards of education are required to prepare Five-year Forecast projections that accurately reflect the financial standing of a school district, the existing distribution model does little to support accurate financial modeling beyond the current biennium.

Mr. Bunting will now outline our recommendations for distribution under the Fair Funding Model.

Proposed Fair Funding Model for Ohio's Schools

Co-Chairmen Cupp and Patterson and members of the House Finance Subcommittee on Primary and Secondary Education. I would like to begin by thanking you for allowing me to provide testimony in support of the Fair School Funding Plan, as was explained earlier, my name is Jared Bunting and I am the Chief Finance Officer of Trimble Local School District.

Under the proposed Fair Funding Model, the Distribution Committee is recommending an approach that continues to recognize the contributions of local property valuation and income capacity in determining the level of state share support for a given school district using relative weighting of 60 percent on property valuation and 40 percent on income capacity. The model proposes the following methodology:

A calculation of a district's average property valuation per pupil.

- [(Less of 3-Year Average Valuation or most recent Valuation) / (K-12 Headcount Enrollment)] x 1.35%

A calculation of a district's average income capacity per pupil.

- 20% - [(Lesser of 3-Year Average FAGI or most recent FAGI) / (K-12 Headcount Enrollment)] x 0.45%
- 20% - [(Most Recent Median FAGI) x (Most Recent Number of Tax Returns) / ((K-12 Headcount Enrollment)] x 0.45%

Let's walk through a couple of examples first focusing on the property valuation portion of the methodology:

A district with an enrollment of 959 students with a taxable property valuation of one hundred sixty-five million, would have a valuation per pupil of one hundred seventy-two thousand fifty-four dollars. Once the weight is applied, this becomes a per pupil share of two thousand three hundred twenty-three.

A similar district with nine hundred seventy-five students with a much lower property valuation of one hundred three million would have a valuation per pupil of one hundred five thousand six hundred forty-one dollars. Weighing in at one thousand four hundred twenty-six.

Now let's take the same two sample districts and review the income capacity portion proposed:

District 1

Total Federal Adjusted Gross Income of One hundred eighty-seven million dollars divided by enrollment gives us one hundred ninety-four thousand nine hundred ninety-five. Utilizing the 20% weight produces a Total Federal Adjusted Gross Income Weight per pupil of eight hundred seventy-seven.

This same district has a Median Federal Adjusted Gross Income of thirty-two thousand eight hundred seventysix. This is multiplied by the total number of tax returns of four thousand ninety-one. The calculated Federal Adjusted Gross Income is One hundred thirty-four million four hundred ninety-five thousand seven hundred sixteen. Resulting in a per pupil amount of One hundred forty thousand two hundred forty-six. With weights applied six hundred thirty-one dollars will be added to the local share per pupil for District 1.

District two has a federal adjusted gross income of one hundred thirty-seven million dollars which calculates to six hundred thirty-two dollars in a total Federal Adjusted Gross Income weight per pupil.

With a Median Federal Adjusted Gross Income of Thirty-Four Thousand one hundred thirty-four and three thousand one hundred seventy-nine returns results in a Total Median Federal Adjusted Gross Income Weight of five hundred one dollars per pupil

So to determine the local share per pupil, district one's calculation provided two thousand three hundred twenty-three dollars in property valuation, eight hundred seventy-seven dollars in Total Federal Adjusted Gross Income and six hundred thirty-one dollars in Median Federal Adjusted Gross Income for a total local share of three thousand eight hundred thirty-one dollars.

The circumstances for District two would result in a local share of two thousand five hundred fifty-nine dollars.

The amount calculated in the base cost model would be less the amounts calculated in the distribution formula to determine the state share.

Benefits Associated with the Proposed Fair Funding

Now let's take a minute to discuss the rationale behind why this methodology is being proposed.

- Schools can generate revenues in two major ways: Property Taxes and Income Taxes, this distribution method takes into account both sources equally across all districts.
- All Districts are calculated the same way - using residents' income and each district's property values to determine funding capacity. The result will not change unless there is a change in the district's own property valuation or income.
- Each District is calculated independent of statewide averages resulting in increased stability in funding levels and eliminating the current concern where a change in one district impacts another. In addition, this provides a clearer picture of each district's local funding capacity.
- The new calculation accounts for demographic changes in districts (growing or declining enrollment) since its based on a K-12 headcount calculation.

- This K-12 Headcount calculation also benefits changes to open enrollment funding which you will hear testimony from in the near future.
- By recalculating annually, this causes less dislocation by having smaller changes more frequently to local/state share than freezing for two years and getting a larger change.
- As a district that receives most of its funding from the State of Ohio, Trimble's current SSI is 88.9%, the distribution model is very important to my district.
- Whereas, the current formula, as it is today works for Trimble with the addition of capacity aid, Trimble has to hope that capacity aid will continue to exist as a piece of the patchwork, otherwise the district could quickly lose its fiscal solvency.
- The new base cost and distribution methodology will allow for increased stability which will allow for better projections and planning.
- Most Importantly… It works! Under the proposed distribution model, 84 percent of districts would receive funding as calculated by the formula.

With that, I would like to turn the presentation over to Mike Sobul, who has a wealth of knowledge with regard to school and State Funding for a deeper dive into simulation result.

We would like to conclude our testimony with a final thought:

Ohio has long needed a rational, transparent, comprehensive and – most of all – fair system for funding its schools. Unfortunately, Ohio's current school funding formula is not working. In fact, four out of five districts (82%) are now funded off the formula with a cap limiting funding or a guarantee underpinning it. This is because our school funding formula and system is not based on the actual needs of our students, schools and communities. We believe that the distribution model proposed under the Fair Funding Plan provides a strong mechanism for achieving this vision for Ohio's schools and, more importantly, for Ohio's nearly 1.8 million students.

Co-Chairmen Cupp and Patterson, thank you for this opportunity to offer testimony on the proposed Fair Funding Model for Ohio's Schools. We stand ready to address questions from the committee at the pleasure of the Chairmen.