

Testimony on the Education Provisions of House Bill 64, the FY16-17 Biennial Budget

Ohio House of Representatives
Finance Subcommittee on Primary and Secondary Education
Representative Robert R. Cupp, Chair
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Chairman Cupp, Ranking Member Phillips and members of the House Finance Subcommittee on Primary and Secondary Education, thank you for the opportunity to speak with you today regarding budget recommendations for the department of education and proposed changes to the school foundation formula contained in House Bill 64, the Fiscal Year 2016-2017 Biennial Budget. I am Aaron Rausch, director of the Office of Budget and School Funding at the Ohio Department of Education.

My colleagues who have already spoken this afternoon have outlined many of the new and expanded initiatives contained in the governor's budget. I wish to highlight a few additional items as they relate to the department's budget and programs.

Of the recommended appropriations contained within the department of education's budget, approximately 98 percent will flow to local schools in the form of subsidy payment. These represent payments for the school foundation program, property tax rollback payments, federal grants, property tax replacement payments, and other grants and aid. Of the remaining two percent, the majority is used on contracted personal services and the expenses associated with federal- and state-mandated testing and the Ohio School Report Cards. Less than one half of one percent of the department's budget remains at the department in the form of staff salaries.

Program Administration and Oversight

The department employs 516 full time employees. Over half are funded by non-general revenue funds. The governor's budget would ensure funding for vacant positions currently in process as well as additional staff in the key priority areas discussed with you today, including the department's Office of Quality School Choice, EMIS and licensure. This will allow the department to effectively and efficiently carry out existing programs as well as the proposals in front of you today. Additionally, the executive proposal includes an increase of \$1.2 million in funding each year for research and policy analysis (GRF line item 200424). This funding would be used to support a research agenda based on input from the department, the Governor's Office, the Office of Budget and Management and the General Assembly.

Education Technology Resources

The current biennial budget dissolved the eTech Ohio Commission and replaced the commission with the Broadcast Educational Media Commission. Through the dissolution of the commission, the department received three programs: training, technical support and guidance to school districts in applying for federal E-Rate funds; support and guidance related to local school district technology plans; and distribution of the subsidy to Ohio's eight educational technology centers. The governor's budget proposal consolidates the two line items contained in the current budget (GRF line items 200464 and 200465) and moves funding for INFOhio – Ohio's K-12 library consortium (from GRF line item 200426). Funding also is recommended to support continuation of the eTranscript system – a joint project between the department and the Ohio Board of Regents that allows students applying to colleges to submit their high school transcripts electronically and free of charge.

Foundation Program

The largest parts of the department's budget are the appropriations related to the school foundation program. House Bill 64 appropriates \$7.4 billion in FY16 and \$7.7 billion in FY17. Of this amount, \$877.7 million comes from the lottery profits education fund. These appropriations represent an additional \$700 million over the biennium in new state aid distributed to school districts and community schools through the formula.

Under the governor's proposed increases in the per-pupil amounts and revisions to the capacity measure discussed below, 75.2 percent of students in FY16 and 77.6 percent of students in FY17 live in school districts poised to receive increased foundation formula funding under the executive proposal.

Work surrounding the proposal before you today was guided by the following goals:

- Work within the existing framework of the formula enacted under the current biennial budget;
- Make appropriate adjustments to the per-pupil amounts based on the needs of students;
- Direct additional resources to districts with the lowest capacity; and
- Make progress at eliminating the short circuits in the formula – funding caps and guarantees.

Ohio's school funding formula is centered on needs of students. If a student is economically disadvantaged, additional funding is provided. If a student requires special education services or rides the bus to school, additional funding is provided. This funding follows the student if he or she chooses to leave a traditional public school and attend a community school or STEM school. The governor's budget maintains this structure and the nine primary aid categories used in the existing formula: the core opportunity grant, targeted assistance, K-3 literacy funding, economically disadvantaged aid, limited English proficiency funding, gifted funding, transportation aid, special education aid, and career-technical education funding.

While many of the components are left unchanged, I would like to highlight five of the proposed changes:

- Opportunity Grant per-pupil funding would increase from \$5,800 in FY15 to \$5,900 in FY16 to \$6,000 in FY17;
- Special education per-pupil categorical amounts would increase 2 percent in each fiscal year. The Ohio Coalition for Students with Disabilities completed cost studies that estimated the cost of providing services by disability category. These cost studies formed the basis for defining the funding in the current formula;

- K-3 literacy per-pupil funding would increase 5 percent in each fiscal year. This increase is in line with the governor's and Dr. Ross's goal that every boy and girl in Ohio can read at grade level by the end of the third grade;
- Career-technical education per-pupil funding would increase by 4 percent in each fiscal year, which is reflective of the focus of making sure students are college and career ready and further supports the new pathways to graduation. The current budget expanded the number of career-technical education categories from two to five in order to prioritize the career-technical education programs that encompass Ohio's in-demand career fields; and
- Transportation funding would still be calculated on per-ride or per-mile basis, but the minimum state share percentage for transportation funding would be reduced from 60 percent to 50 percent.

Capacity Measure

The area where the desire to work within the existing framework of the current formula proved to be difficult was the manner in which the current wealth index distributes resources. It is through the wealth index, and our proposed capacity measure, that the formula works to distinguish between higher and lower wealth districts and allocate resources accordingly. The state share percentage is applied to the per pupil amounts for the opportunity grant, special education, career-technical education, limited English proficiency, a portion of K-3 literacy funds and transportation funding.

Under the current funding formula adopted in 2013, income was introduced as a measure of wealth in some districts. First, a three-year average valuation was used to calculate a valuation per pupil by district. That valuation per pupil was then compared to the statewide average valuation per pupil to create an index. Median income from the Ohio Department of Taxation was similarly used in order to create an income index. The income index was then compared to the valuation index. Only when a district's income index was less than the district's valuation index was an adjustment made. This adjustment weighted the valuation index at two-thirds value and the income index at one-third value and had the effect of lowering the wealth of the district.

Through our work and preparation leading up to the executive proposal, it was determined the manner in which income is used does not appropriately adjust income for lower-wealth districts. In fact, the current construction of the income adjustment is more likely to benefit higher-wealth districts. Of the 177 districts in the current formula who receive this benefit, 95 have median incomes above the statewide median, 145 are placed in our two highest quintiles of capacity, and only 10 are from the lowest two quintiles of capacity (of five total). Ultimately, it is the comparison of income to valuation that creates these results.

In response to these findings, the governor's school funding proposal includes a modification to the current wealth index (which we propose to call the capacity measure) and the state share index (which we propose to call the state share percentage). Rather than comparing income relative to property valuation, House Bill 64 would compare income in a district relative to the state. If a district has income significantly above or below the state, an adjustment is made to either lower or raise the district's valuation index. This number then becomes the proposed capacity measure. For the 321 districts whose income clusters around the median income (within 0.5 standard deviation), no adjustment is made. For the 176 districts whose lower income levels are significantly below the median income, an adjustment is made to more appropriately reflect the local capacity of the district. Conversely, for the 114 districts whose income is significantly above the state median, an adjustment is made to more appropriately reflect increased local capacity. The calculation that incorporates the income adjustment for lower-

wealth districts will be implemented immediately beginning in FY16. The calculation for higher-wealth districts will be applied at a factor of 20 percent in FY16 and 40 percent in FY17.

This proposed change is recommended to better incorporate income as a factor into the distribution of state resources. With this modification, the formula more effectively targets state aid to districts with a lesser capacity to generate local revenue. Of those 176 districts that benefit from the income adjustment under our proposal, 140 are from the two quintiles with the lowest capacity vs. only 16 from the two highest capacity quintiles. This outcome is significantly different than the current use of income.

Cleveland Municipal School District is an example of how the proposed use of income benefits districts with lower capacity. Cleveland Municipal School District has both low income and low property valuation per pupil. However, because the district's income is not quite as low as their property, no adjustment is made in the current formula. This is true for Cleveland and the 133 districts with low median incomes.

Transitional Aid

Transitional aid (or the "guarantee") is not a recent addition to the school funding formula. In fact, before FY08 – there were multiple guarantees. Over the past 15 fiscal years, more than half of Ohio's school districts received some form of guarantee assistance in nine of those years. The cost of the guarantee also has ranged significantly. In FY09, 348 districts were guaranteed at a cost of \$392 million. In the current biennium, the guarantee prevented a district's state aid from falling below FY13 levels.

Because guarantees have been in place for so many years, the difference between a district's calculated funding and its state aid can be substantial. The purpose of the school funding formula is to efficiently allocate limited state resources to school districts based on the needs of the students and the capacity of the district. However, the inclusion of a guarantee hinders this.

The governor's proposal does not eliminate the guarantee, but seeks to replace the 100 percent guarantee with a policy that buffers school districts from dramatic shifts in state aid while also requiring school districts to adjust to their changing factors, be it greater capacity or fewer students. House Bill 64 would guarantee a school district at 99 percent of its combined state and local resources from the prior year. The result is that school districts where guarantee funding makes up a larger portion of total resources would see less of a reduction than a school district where the amount of guarantee funding represents a small portion of total resources. Looking at both state and local resources rather than just state aid is more aligned with the concept of "transitional" aid and buffers districts from significant disruptions in funding.

Cap

The current formula includes a feature called the cap, which withholds calculated aid above a certain growth rate. Like a guarantee, the cap short circuits the formula, in this case by withholding calculated aid. The executive budget maintains a cap at 10 percent annual growth in each year. In FY15, more than 180 districts see funding withheld in excess of \$570 million. By the end of the biennium, 130 districts will be subject to the growth cap, with a withheld amount of approximately \$350 million. However, the short circuiting of the cap withholding may be eliminated by the end of the next biennium.

Community Schools and STEM Schools

Students in Ohio are funded based on their districts of residence. If a student chooses to leave the traditional public school district in which he or she resides for a community school or STEM school, the

funding follows that student. The executive proposal makes no changes to this arrangement. Students would generate increased per-pupil funding in the categories discussed above. Additionally, as discussed in previous testimony today, the per-pupil amount for facilities funding paid directly by the state and not through a deduction from traditional districts is recommended to increase to \$200 per pupil for each year of the biennium (lottery profits education fund line item 200684).

Joint Vocational School Districts

Ohio's 49 joint vocational school districts are funded with many of the same categories as traditional public schools, but have a calculated state share that is slightly different. This is, in part, due to the fact that these school districts are much larger and educate fewer students than traditional districts. Rather than taking a valuation index and income index, a base cost approach is used. A local share (0.5 mills multiplied by the three year average-valuation) is subtracted from the base cost (opportunity grant per pupil amount multiplied by student enrollment). This determines the amount of the opportunity grant. A state share percentage is then calculated by dividing the amount generated under the opportunity grant by the base cost. The executive proposal would increase the per-pupil amounts and apply transitional aid in the same manner as traditional school districts but makes no change to the calculation of the state share percentage.

Preschool Special Education

For years, preschool special education was funded by a unit amount that was based on the cost of operating a classroom based on the minimum teacher salary in place prior to 2002. The current biennial budget significantly increased funding for preschool special education and aligned the funding to the department's early childhood education program of \$4,000 per pupil paired with special education categorical amounts. The executive proposal continues this funding for more than 23,000 preschool special education students on the specific disabilities of the child and the wealth of the district, rather than on an outdated teacher cost model.

Educational Service Centers

Educational service centers serve a vital role in K-12 education in Ohio. At a state level, the department uses educational service centers to deploy and coordinate professional development and provide intervention and support to local school districts. In fact, several of the new initiatives discussed today will likely be executed in coordination with our educational service center partners. At the local level, educational service centers represent an excellent example of shared services. They operate early childhood education programs; provide curriculum, special education and other specialized services; offer insurance and purchasing consortiums; and support professional development needs. School districts with 16,000 students or less must enter into an agreement with an educational service center. In FY15, educational service centers receive approximately \$27 per pupil in the form of a state operating subsidy (GRF line item 200550). The executive proposal would set the state operating subsidy at \$25 per pupil in FY16 and \$20 per pupil in FY17. As a percent of the statewide educational service center network, the state operating subsidy represents a very small part of revenue received by these organizations.

Nonpublic Student Funding

While not part of the foundation formula, chartered nonpublic schools receive two forms of general state support. Auxiliary services funding (GRF line item 200511) can be used to purchase secular textbooks, educational materials and equipment. Other services provided by the program include health and counseling services, special education and testing. Included as a set-aside within the auxiliary services line item is funding for chartered nonpublic students to participate in College Credit Plus. The

set-aside in the executive budget was increased to \$2.6 million in each fiscal year to eliminate the lottery that exists. Additionally, chartered nonpublic schools are required to perform some administrative and clerical activities by the state. Nonpublic administrative cost reimbursement (GRF line item 200532) helps defray the costs of these mandated activities. The governor's budget increases both line items at the same percentage as the GRF foundation funding line item: 5.7 percent in FY16 and 4.8 percent in FY17. This will bring combined funding for these two line items to more than \$222 million.

Chairman Cupp, this concludes my testimony. Thank you for the opportunity to speak to the subcommittee today about these important budget initiatives. I would be happy to answer any questions you may have at this time.