

Equity & Adequacy

Of School Funding

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Testimony on the Primary and Secondary Education Section
of the State Budget Proposal for FY 2016 and FY 2017

March 5, 2015

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Ohio Coalition for Equity & Adequacy of School Funding

Mr. Chairman and members of the committee, I am William L. Phillis, Executive Director of the Ohio Coalition for Equity & Adequacy of School Funding. I have been working in Ohio public education for 57 years as a teacher, principal, superintendent, Assistant Superintendent of Public Instruction and Executive Director of the Ohio Coalition for Equity & Adequacy of School Funding.

The emphasis of my testimony is on the broad principles of school finance—the big picture issues. An understanding of state responsibility for public education, how to formulate a school funding system and the characteristics of a rational school funding system must precede the development of a school foundation formula and the other components of the system. At this juncture, I will leave it to others to testify regarding specifics inherent in HB 64, and most assuredly, this committee will receive much advice on how to adjust the formula factors to ensure more winners and less losers.

Premise of current school funding system?

At the outset, this committee may wish to seek answers to some basic questions:

- What is the premise of the current school foundation program level of \$5,800 per pupil? On what is that number based?
- What is the premise of adding \$100 each year to that \$5,800 level? Are those increases related to something? Anything?
- What is the rationale for the level of funding for the line item appropriations and subsidies or the absence of line items? For example, why is there not a line item for school bus purchase as was the case two decades ago?

Those who craft state budgets for public education typically begin with a predetermined amount of funds or a “control” figure and then work back into a formula and the line item appropriations and subsidies. This “residual” budgeting approach does not connect to the funding system with the components of a high quality education or the education and related needs of students; hence, it is merely a mathematical exercise.

The legislative process then often becomes an intuitive exercise in adjusting the formula factors and distribution system, and in moving funds among the foundation program and other line item education subsidies and appropriations. Also, the process typically results in a marginal increase or decrease in the proposed bottom line appropriation recommended by the Governor for public K-12 education.

Connect the funding system with the education system

Perhaps this will seem too idealistic, but the funding level of the foundation formula and other line item education appropriations and subsidies should be based on the cost of the components of high quality educational opportunities and the comprehensive educational needs of students. What constitutes “high quality” educational opportunities is disputable, but that debate is essential.

The need to connect the funding to essential education components is not a new idea

The January 22, 1991 Final Report of the Joint Select Committee to Study Ohio’s School Foundation Programs and The Distribution of State Funds to School Districts (Committee chaired by then-Senator Robert R. Cupp), stated on page six, “The foundation per pupil level should have some reasonable relationship to the cost of a quality basic program efficiently provided and some objective method of determining it should be developed. The per pupil funding level is now set during deliberations on the biennial budget and is widely considered to represent a level determined almost solely by money available after deductions for other education and non educational program costs. Development of the mechanisms could be a proper assignment for the Legislative Office of Education Oversight.” (This study was commissioned by SB 140 of the 118th General Assembly.)

In July 1998, the National Conference of State Legislators published, Educational Adequacy: Building an Adequate School Finance System, which suggested a similar approach to the advice in the 1991 report.

In February 2013, the Equity and Excellence Commission, a federal advisory committee chartered by Congress, issued the report, For Each and Every Child—A Strategy For Education Equity and Excellence. On pages 14 and 15 of the report is posed the question, “How can we have an education reform strategy that doesn’t demand an equitable allocation of resources tied to student needs?”

On page 18 of the report, the Commission recommends that all states:

- “Identify and publicly report the leading staff, programs and services needed to provide a meaningful educational opportunity to all students of every race and income level, English language learners and students with disabilities, based on evidence of education practices. They should also determine and report actual costs of resources identified as

needed to provide all students a meaningful educational opportunity based on the efficient and cost-effective use of resources.”

- Adopt and implement a school finance system that will provide equitable and sufficient funding for all students to achieve state content and performance standards.”

Methodologies for determining the costs

There are four methods that are commonly used by school finance experts to compute the per pupil cost of public education—professional judgment, successful schools, evidence-based model and econometric.

Some of these methodologies have been used in Ohio in the past. In the early 1990s, the Alliance for Adequate School Funding engaged school finance expert Dr. John Augenblick to determine what the per pupil level of the foundation program should be. Augenblick essentially used the successful schools approach. Subsequent to the July 1, 1994 Trial Court decision in *DeRolph*, a panel of three school finance experts and two tax experts issued the report-Proposals for the Elimination of Wealth Based Disparities in Public Education. This panel invoked the successful schools approach.

In 1997, the state engaged Augenblick to determine a cost figure. Again, Augenblick used the successful schools model.

A brief record of further efforts to determine a cost figure follows:

- October 1999—Basket of Essential Learning Resources for the 21st Century, The Ohio Coalition for Equity & Adequacy of School Funding
- December 31, 2000-Final Report of the Joint Committee to Re-Examine the Cost of an Adequate Education- considered both inputs and outputs as a basis for a per pupil funding level. This effort was in response to *DeRolph II*.
- 2001--HB 94 was based somewhat on the work of this Joint Committee.
- In the 2001 *DeRolph III* decision, the Court opined that if the legislature had actually followed its own costing methodology, the system would have been ruled constitutional. But *DeRolph III* was vacated.
- In *DeRolph IV*, the Court ordered the state to follow the dictates of *DeRolph I* and *II* to give the school funding system a complete systematic overhaul.
- Governor Taft’s Governor’s Blue Ribbon Task Force on Financing Student Success in the State of Ohio was a partial response to the *DeRolph IV* decision. Among the recommendations of the Task Force was, “School funding levels should be based on ‘inputs’—the ‘evidence-based’ strategies, services and programs that are proven effective in enhancing student success.” Thus, the Building Blocks approach was initiated.
- Governor Strickland used the evidence-based model in his second budget proposal but the Kasich administration abandoned that effort.

Guidance from the Ohio Supreme Court

The Ohio Supreme Court, in the March 24, 1997 *DeRolph* decision, opined that, “All the facts documented in the record lead to one inescapable conclusion—Ohio’s elementary and secondary public schools are neither thorough nor efficient.” Further the Court stated: “In fact, the formula amount is established after the legislature determines the total dollars to be allocated to primary and secondary education in each biennial budget. Consequently, the present school financing system contravenes the clear wording of our Constitution and the framers’ intent.” (Maybe the justices read the January 22, 1991 Cupp report.)

Again it would seem appropriate for legislators to question the rationale for the per pupil foundation level in FY 2015 and the proposed \$100 increase in each year of the next biennium.

The Court ordered a “complete systematic overhaul” of the school funding scheme and identified four factors that contributed to the unworkability of the system and must be eliminated. Two of those factors that have been nibbled on but not addressed are: “(1) the operation of the School Foundation program, (2) the emphasis of Ohio’s school funding system on local property tax,”

After three weak attempts by the state to satisfy the 1997 Court order, the Court in December 2002 ordered, in Paragraph 5: “To date, the principal legislative response to *DeRolph I* and *DeRolph II* has been to increase funding, which has benefited many schoolchildren. However, the General Assembly has not focused on the core constitutional directive of *DeRolph I*; ‘a complete systematic overhaul’ of the school funding system, Id,78 Ohio St. 3d 733. Today we reiterate that that is what is needed, not further nibbling at the edges. Accordingly, we direct the General Assembly to enact a school-funding scheme that is thorough and efficient, as explained in *DeRolph 1*, *DeRolph II*, and the accompanying concurrences.”

The state has continued to nibble at the edges of the court order regarding the operation of the school foundation program and the emphasis on property tax. Since the court released jurisdiction of the *DeRolph* case in the December 11, 2002 ruling, there has been little urgency to fully comply with the constitutional standard of “thorough and efficient.”

State Responsibility for Public K-12 Education

Article VI, §2 of the Ohio Constitution puts the onus on the state to secure a thorough and efficient system of common schools throughout the state. The state, not the school districts, has the responsibility—the duty—the obligation to ensure sufficient funds to meet the constitutional standard. Sometimes state officials indicate that the state must merely make up the difference between what funds local districts can raise and an arbitrary state-established level of funding. Quite often, state officials and others who talk school finance suggest that school funding is a state-local partnership. With all due respect, school funding is a state responsibility. The state has the constitutional right to establish a local funding component but the state is solely responsible to guarantee the level of funding that provides each district an amount that will secure a thorough and efficient system.

The wealth (both income and property) per pupil is so disparate among school districts, that a high per pupil foundation level is required; thus the portion of K-12 foundation funds provided by the state must increase substantially, if not dramatically, to overcome the variation in local school district capacity.

With the exception of a couple years, the combined local district revenue raised by Ohio school districts has outpaced those revenues provided by the state. This historical, ongoing state-local revenue relationship precludes the establishment of a constitutional school funding system. The great disparity in local district “capacity” demands that the state provide a dominate part of school funding revenue. The public K-12 education appropriation in HB 64 is woefully inadequate to accomplish a constitutional, thorough and efficient system.

Proposed school funding level in HB 64 is the same as in FY 2010 and FY 2011

The FY 2010 and FY 2011 biennium amount of Formula Aid and Tangible Personal Property Tax Replacement payments were \$607.3 million less than in the current biennium. See Appendix A—a table constructed by Dr. Howard Fleeter. The proposed state budget increase of \$459 million for the next biennium will position school funding about where it was in the FY 2010 and FY 2011 biennium. An additional concern is that the transfer of funds from districts to choice programs in FY 2016 and FY 2017 will be at least \$500 million more than in FY 2010 and FY 2011. See Appendix B.

Imperative Action

If this committee is constrained to the HB 64 proposed level of state funding for public K-12 education, your task will be merely to rearrange the chairs on the deck. The time for the study and research required for rational deliberations is insufficient. To avoid this situation in the future, HB 64 needs to be amended to include a legislative research and study committee for school finance and other education matters. (See Appendix C for a brief history of legislative study committees and Appendix D for suggested appropriation language for such a committee).

The amount of funds removed from school districts to charter schools and vouchers certainly has an effect on the finances of school districts. The impact of choice programs on the educational programming of school district students has not been objectively researched.

Over \$1 billion is being deducted from school districts this school year for the voucher programs and charter schools. The effectiveness of the choice programs and the impact of the revenue removed from school districts should be subjected to intense legislative review. Since there are major fiscal implications for all students, this is a matter that should be addressed in HB 64.

Obviously the time during this budget process does not permit study and research required of this matter. Therefore, to avoid this situation in the future, HB 64 should be amended to include a study & research committee on choice programs. (See Appendix E for suggested appropriation language for such a committee.)

I will be glad to address any questions you may have.

Appendix A

Analysis of FY14-15 School Funding Formula

Prepared by Dr. Howard Fleeter

for the Education Tax Policy Institute

July 8, 2013

Table 1: FY10-FY15 School District Formula Aid & Tangible Personal Property (TPP) Tax Replacement Payments (\$ in Millions)

	FY10	FY11	FY12	FY13	FY14	FY15
School District Foundation Aid	\$6,536.8	\$6,514.7	\$6,266.1	\$6,325.6	\$6,609.5	\$7,042.4
JVSD Foundation Aid	\$261.0	\$263.0	\$263.0	\$263.0	\$269.5	\$277.1
Total K-12 Foundation Aid*	\$6,797.8	\$6,777.7	\$6,529.1	\$6,588.6	\$6,879.0	\$7,319.5
	\$13,575.5		\$13,117.7		\$14,198.5	
Business TPP Tax Replacement	\$1,041.4	\$1,052.3	\$728.3	\$482.0	\$482.0	\$482.0
Public Utility TPP Tax Replacement	\$79.9	\$76.8	\$31.6	\$28.0	\$28.0	\$28.0
Total TPP Replacement	\$1,121.3	\$1,129.1	\$759.9	\$510.0	\$510.0	\$510.0
	\$2,250.4		\$1,269.9		\$1,020.0	
Total Foundation Aid & TPP Replacement	\$7,919.0	\$7,906.8	\$7,289.1	\$7,098.6	\$7,398.0	\$7,829.5
Biennial Totals	\$15,825.8		\$14,387.7		\$15,218.5	
Biennial Change			-\$1,438.1		+\$830.8	
FY14-15 vs. FY10-11					-\$607.3	

* Foundation Aid figures include Federal Stimulus funds of \$417.6 million in FY10 and \$515.5 million in FY11. All data are from the Ohio Legislative Service Commission.

Table 1 shows that total K-12 Foundation Aid and TPP tax replacement payments were reduced by \$1.438 billion in FY12-13 compared to FY10-11 funding levels (which included federal stimulus funds). These same payments were increased by \$831 million in the FY14-15 biennium compared to FY12-13. Consequently, FY14-15 funding levels for Foundation Aid and TPP replacement are \$607 million less in FY14-15 than in FY10-11.

Appendix B

	TOTAL FOUNDATION FUNDING	TOTAL FOUNDATION FUNDING AFTER COMMUNITY SCHOOL DEDUCTION	COMMUNITY SCHOOL DEDUCTION
FY 90	\$2,832,941,541		
FY 91	\$2,945,758,626		
FY 92	\$2,937,792,352		
FY 93	\$3,058,530,975		
FY 94	\$3,068,396,921		
FY 95	\$3,189,596,974		
FY 96	\$3,369,791,323		
FY 97	\$3,477,577,979		
FY 98	\$3,737,739,199		
FY 99	\$4,235,083,815	\$4,224,098,794	(\$10,985,021)
FY 00	\$4,482,790,766	\$4,431,131,863	(\$51,658,903)
FY 01	\$4,831,396,174	\$4,739,511,098	(\$91,885,076)
FY 02	\$5,325,730,297	\$5,186,788,597	(\$138,941,700)
FY 03	\$5,640,649,972	\$5,436,918,553	(\$203,731,419)
FY 04	\$5,795,376,841	\$5,494,237,362	(\$301,139,479)
FY 05	\$5,956,600,281	\$5,534,864,143	(\$421,736,138)
FY 06	\$6,087,991,590	\$5,606,432,174	(\$481,559,416)
FY 07	\$6,147,709,219	\$5,617,126,761	(\$530,582,458)
FY 08	\$6,457,640,481	\$5,872,711,285	(\$584,929,196)
FY 09	\$6,635,286,811	\$5,988,782,261	(\$646,504,551)
FY 10	\$6,536,792,132	\$5,856,347,304	(\$680,444,828)
FY 11	\$6,514,716,126	\$5,791,435,462	(\$723,280,663)
FY 12	\$6,268,418,459	\$5,491,803,850	(\$776,614,608)
FY 13	\$6,318,597,076	\$5,489,193,437	(\$829,403,640)
FY 14	\$6,604,012,740	\$5,688,768,674	(\$915,244,066)
FY 15	\$5,901,323,239	\$4,955,643,572	(\$945,679,667)

as of Feb.
27 FY 15
ODE report

Appendix C

History of ongoing Legislative Committee to Study Education

Ohio legislatures, during most of the 20th century, have benefitted from such entities. A brief history of such study committees may be helpful.

On February 26, 1913 the legislature passed “an act to create a commission to conduct a survey of public schools, normal schools and agricultural schools of the state...”. The survey was completed in January 1914. Four education bills were enacted, mostly as a result of the commission’s work. The school survey commission remained in effect for twenty years.

A new survey commission was appointed in April of 1932. The first foundation program in 1935 resulted from the work of this commission.

Another commission was enacted via HB 285 in 1941 which resulted in the recodification of the education law section. This commission also addressed the issues of school funding, school facilities and district reorganization.

In 1953 the legislature, via HB 128, created still another survey commission. This commission made twenty-three recommendations regarding school facilities, transportation, finance and laws regarding the State Board of Education. A significant portion of the commission’s report on the organization and role of the State Board of Education found its way into HB 212 of the 101st General Assembly.

The 106th General Assembly, in 1965, enacted HB 810, which required the State Board of Education to study and make recommendations on school district reorganization. HB 810 also created “an Ohio school survey commission consisting of four members of the senate...and four members of the house of representatives.” The Ohio Survey Commission was required to study the State Boards’ recommendations and then make recommendations to the 107th General Assembly.

In 1973, the 110th General Assembly established, via HB 86, the Education Review Committee (See attachment A). The legislation provided for a joint-legislative committee of seven legislators and Director of Finance, a non-voting member, to review the administration of elementary and secondary education. An appropriation of \$200,000 was set aside for FY 1974 and FY 1975 biennium. Among the assignments were studies that “include a study of the methods and formulae for allocating state aid among the various school districts, as well as those used to determine the amount of state’s support for the various general and special programs funded by this act,...” The Equal Yield funding formula was a recommendation of the Education Review Committee. This committee was referenced in the 1979 *Cincinnati v. Walter* school funding decision.

The Education Review Committee continued for several years.

In 1989 the legislature created the Legislative Office of Education Oversight (LOEO) via HB 317 of the 118th General Assembly. LOEO continued in a role similar to that of the Education Review Committee. The office functioned under the oversight of the Legislative Committee of Education Oversight, a committee of 10 legislators. This committee and LOEO were eliminated in HB 66 of the 126th General Assembly.

Appendix D

Legislative Office to Research Public K-12 School Finance and other Education Matters

1. Purpose

The committee shall study all aspects of Ohio’s public school funding system and make recommendations that will bring the system in compliance with and maintain compliance with the constitutional standard of a thorough and efficient system of common schools. The major ongoing task of the committee is to determine the components of a high quality pre-K through 12 public education, cost out those components, and develop a school formula and distribution framework that has the capacity to ensure high quality educational opportunities for public school students and other related tasks as deemed necessary.

2. Appropriation

FY 2016

FY 2017

The foregoing appropriation shall be used to meet the expenses of the Legislative Office to Research Pre-school through grade 12 public school funding in accordance with the above stated purpose.

The committee shall consist of six members of the Senate and six members of the House of Representatives. Not more than three members from either the House of Representatives or Senate shall be of the same political party.

Within 30 days of the effective date of this bill, the Speaker of the House and Senate President shall make the appointments from their respective chambers. The committee may employ such consultants, experts, and other personnel it deems necessary to perform its tasks. The committee shall all the powers of committees of the General Assembly as provided by law and the rules of the General Assembly.

In meeting its responsibility, the committee shall conduct hearings at various locations in the state and may appoint a citizen advisory committee to assist it. The committee shall report its findings and recommendations, including specific legislative proposals, to the 131st General Assembly by July 1, 2016 and by July 1, each even numbered year thereafter.

Appendix E

Legislative Office to Research Vouchers and Charter Schools

1. **Purpose**

The committee shall study and make recommendations regarding the role of voucher programs and charter schools in the context of the state's constitutional responsibility to secure a thorough and efficient system of public common schools, the educational opportunities currently provided in the voucher programs and charter schools, the cost-effectiveness of high quality educational opportunities in these education settings and the effects of these programs on the education of students in traditional public school districts. The committee shall study all policies related to these programs and make recommendations.

2. **Appropriation**

FY 2016

FY 2017

The foregoing appropriation shall be used to meet the expenses of the Legislative Office to Research Voucher Programs and Charter Schools to research the effectiveness of charter schools and vouchers programs, determine the actual cost of such programs, assess the effects of such alternatives on the students attending traditional public schools and make recommendations to ensure that students who attend such choice programs are afforded high quality education programming in a cost-effective manner.

The committee shall consist of six members of the Senate and six members of the House of Representatives. Not more than three members from either the House of Representatives or Senate shall be of the same political party.

Within 30 days of the effective date of this bill, the Speaker of the House and President of the Senate shall make the appointments from their respective chambers. The committee may employ such consultants, experts, and other personnel it deems necessary to perform its tasks. The committee shall have all the powers of committees of the General Assembly as provided by law and the rules of the General Assembly.

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