

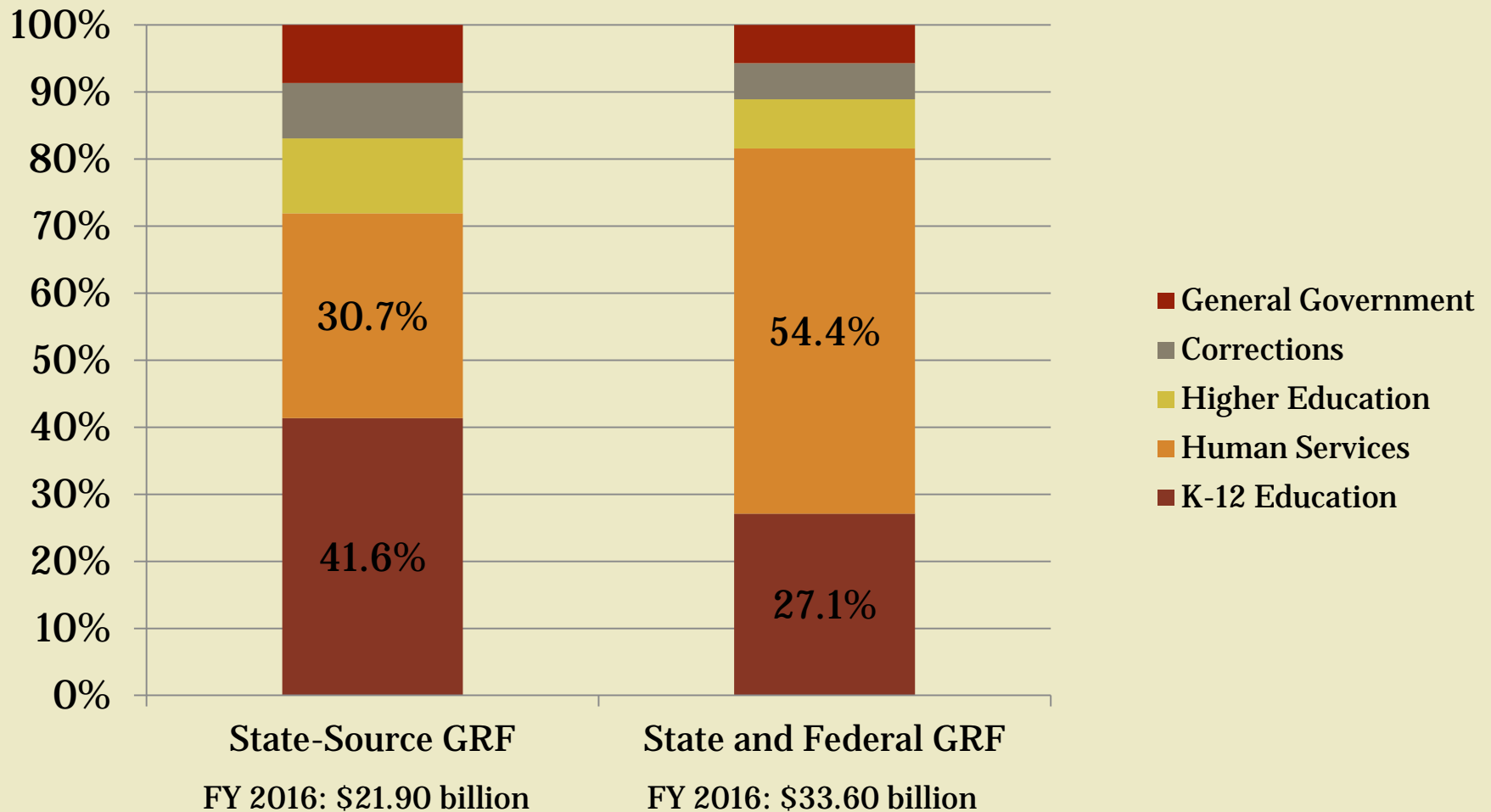
# School Funding



**AN OVERVIEW OF HOW OHIO FUNDS ITS  
SCHOOLS**

**Legislative Service Commission  
March 2017**

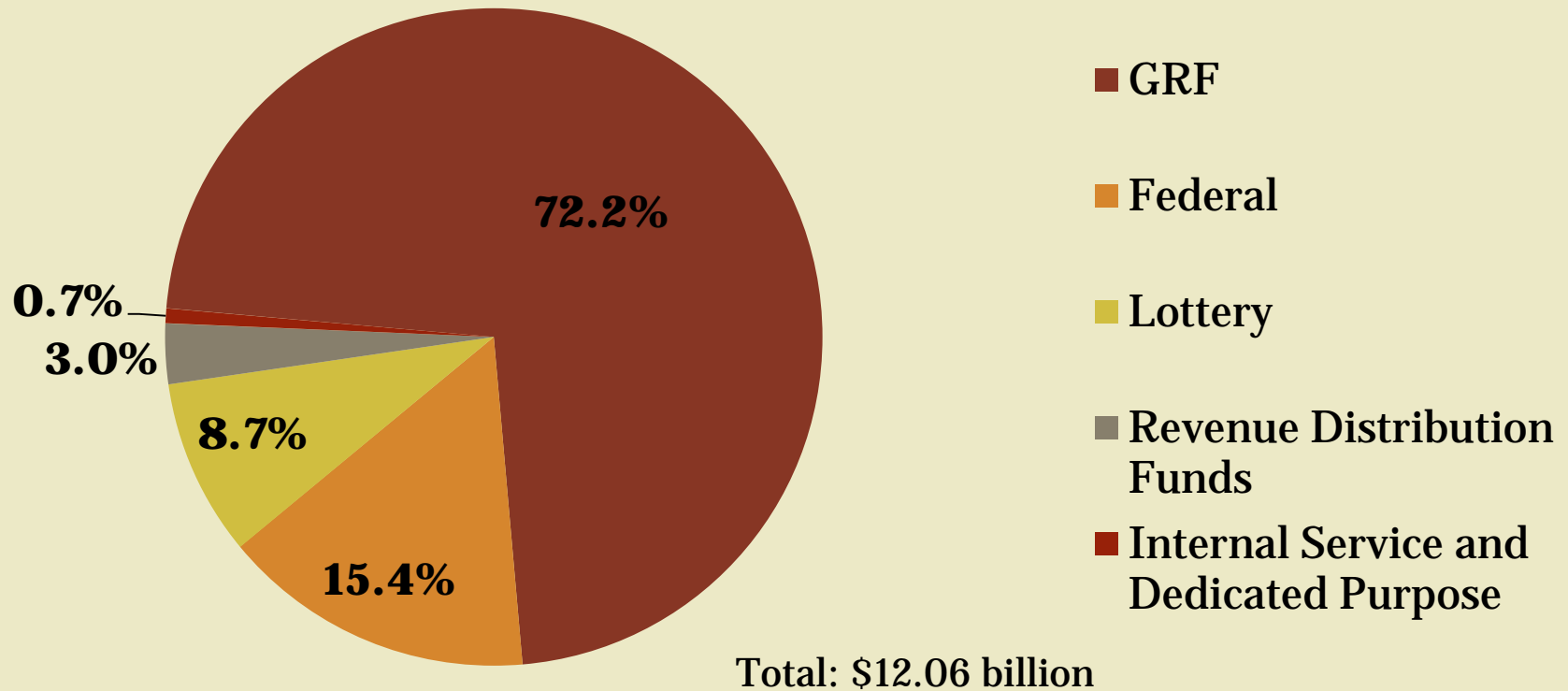
# Importance of K-12 Education for State Budget



# GRF Accounts For Most of ODE Budget



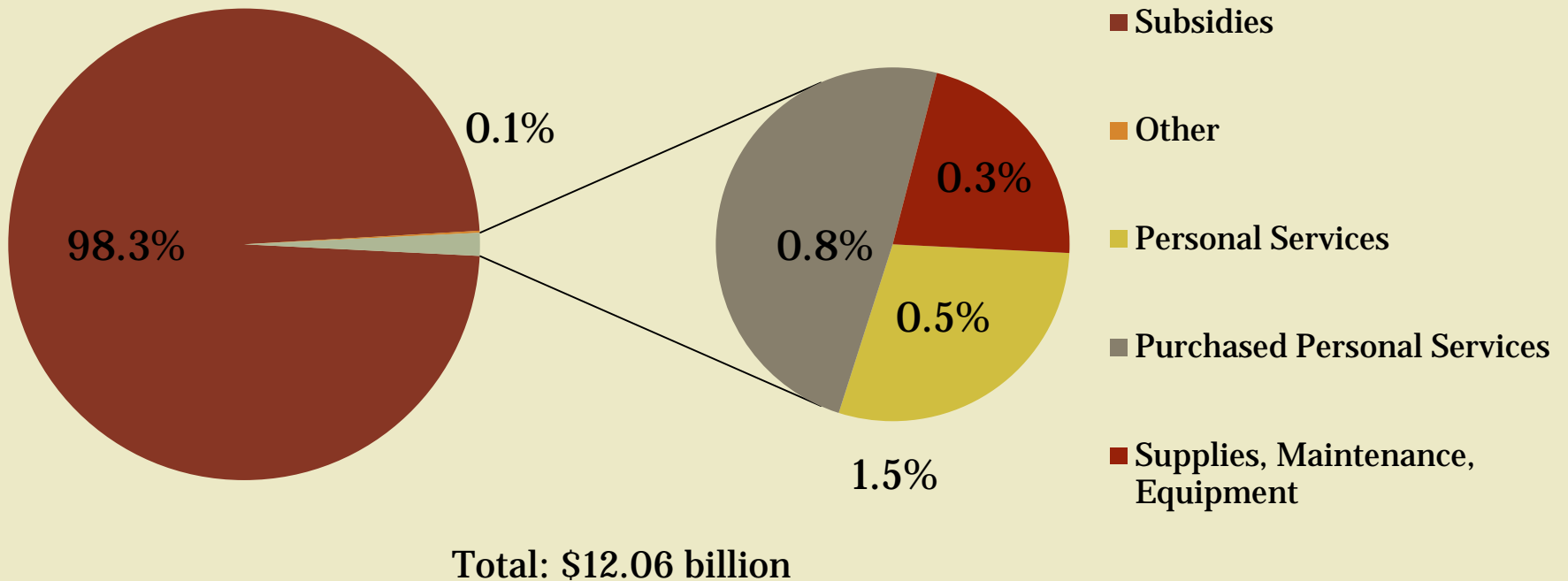
## ODE Expenditures by Fund Group, FY 2016



# Most of ODE Budget Goes to Outside Entities



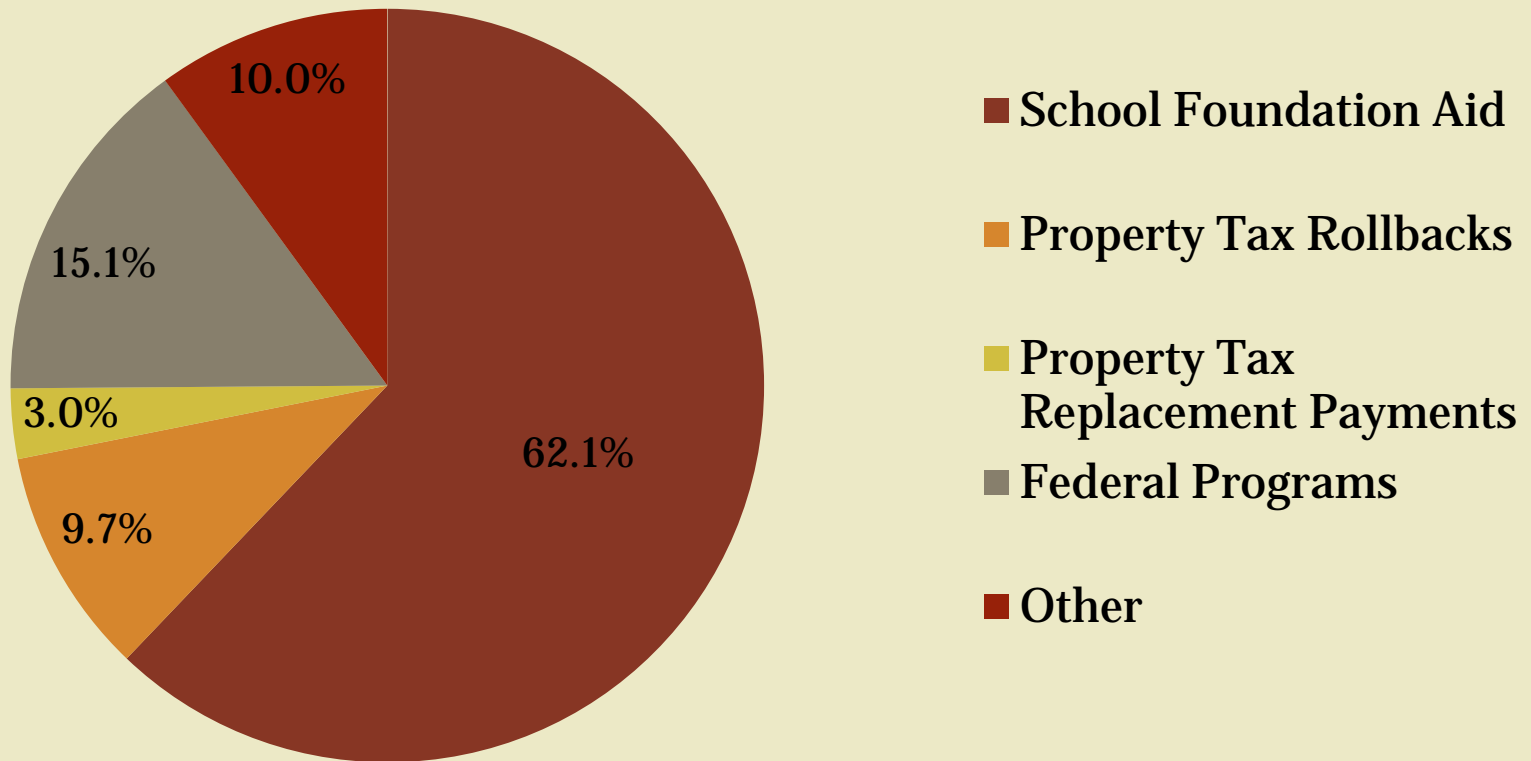
## ODE All Fund Expenditures by Account Category, FY 2016



# School Foundation Aid Makes up Majority of Subsidy Payments



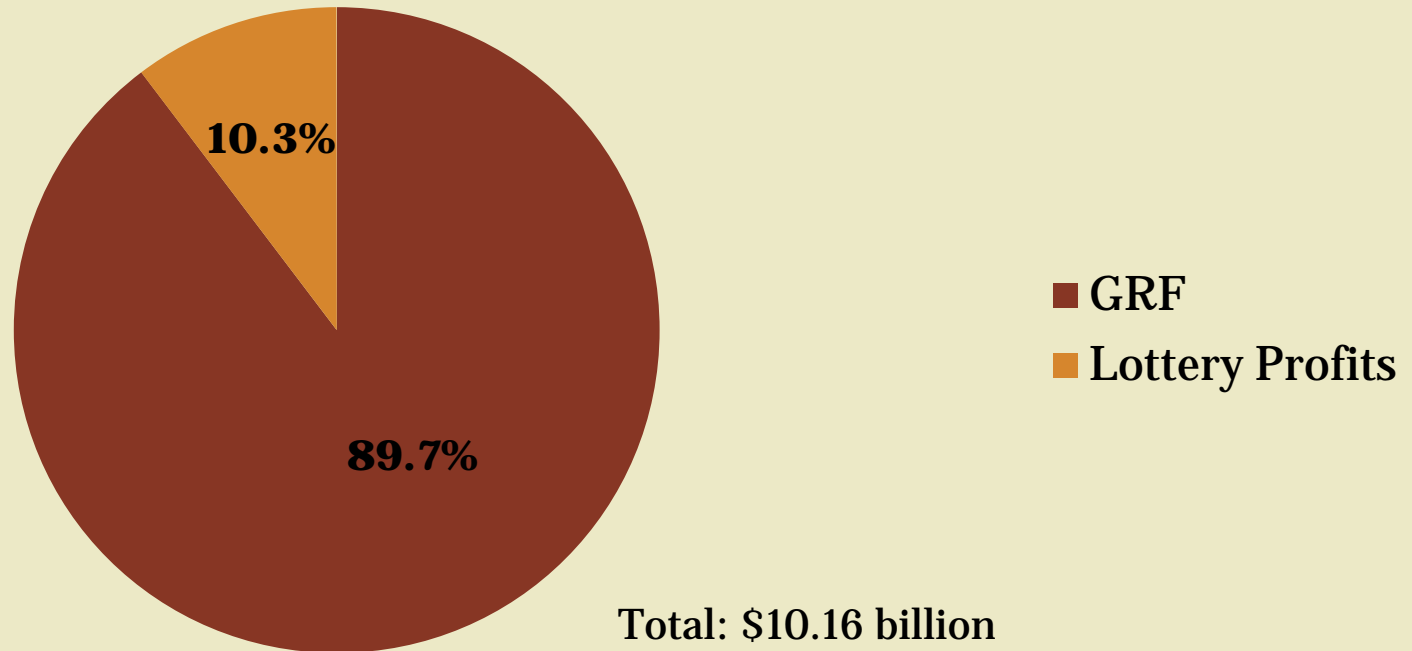
## Subsidy Payments, FY 2016



Total: \$11.86 billion

# Lottery Profits Comprise a Small Share of K-12 Education Funding

## Lottery Profits as Share of Spending for K-12 Education, FY 2016



# Formula Changes in Recent Years



## Foundation Aid Formulas

- **Building-Blocks Model**
  - FY 2006 to FY 2009
- **Evidence-Based Model (EBM)**
  - FY 2010-FY 2011
- **Bridge Formula**
  - FY 2012-FY 2013
- **Current Formula**
  - FY 2014-Present

# A Few Thoughts on Understanding School Funding



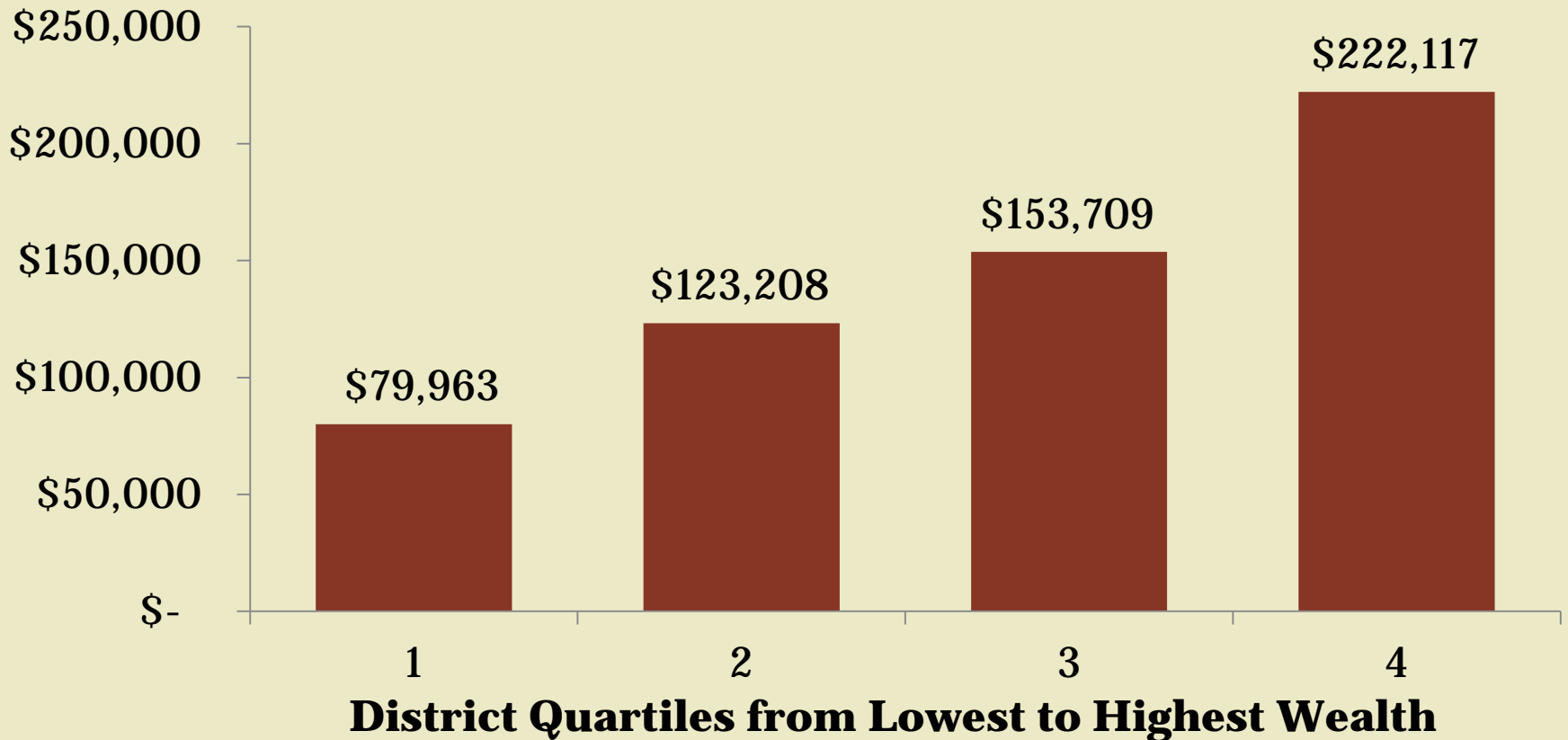
- A major goal of the state's school funding formula is to neutralize the effect of local property wealth disparities on students' access to a basic education
- Most funding is distributed based on a uniform per pupil amount equalized according to district wealth
- The formula also accounts for the unique circumstances of school districts and students



# Capacity Varies Across Districts



## Valuation Per Pupil by Wealth Quartile



# Impact of Varying Valuations



- Same tax effort results in very different levels of revenue
  - 38 mill (3.8%) tax effort results in
    - ✦ \$3,040 revenue per pupil in district with valuation of \$80,000 per pupil
    - ✦ \$8,436 revenue per pupil in district with valuation of \$222,000 per pupil

# Addressing Differences in District Capacity



- Current law and Executive proposal – index
- H.B. 64 House Plan – charge-off

# Addressing Differences in District Capacity



- **State Share Index**

- Accounts for both “capacity” and “ability” to pay property taxes
- Basis is three-year average property value
- Adjustment for income for certain districts
- Calculated once for both years of the biennium

# Wealth Index – Current and Executive Proposal



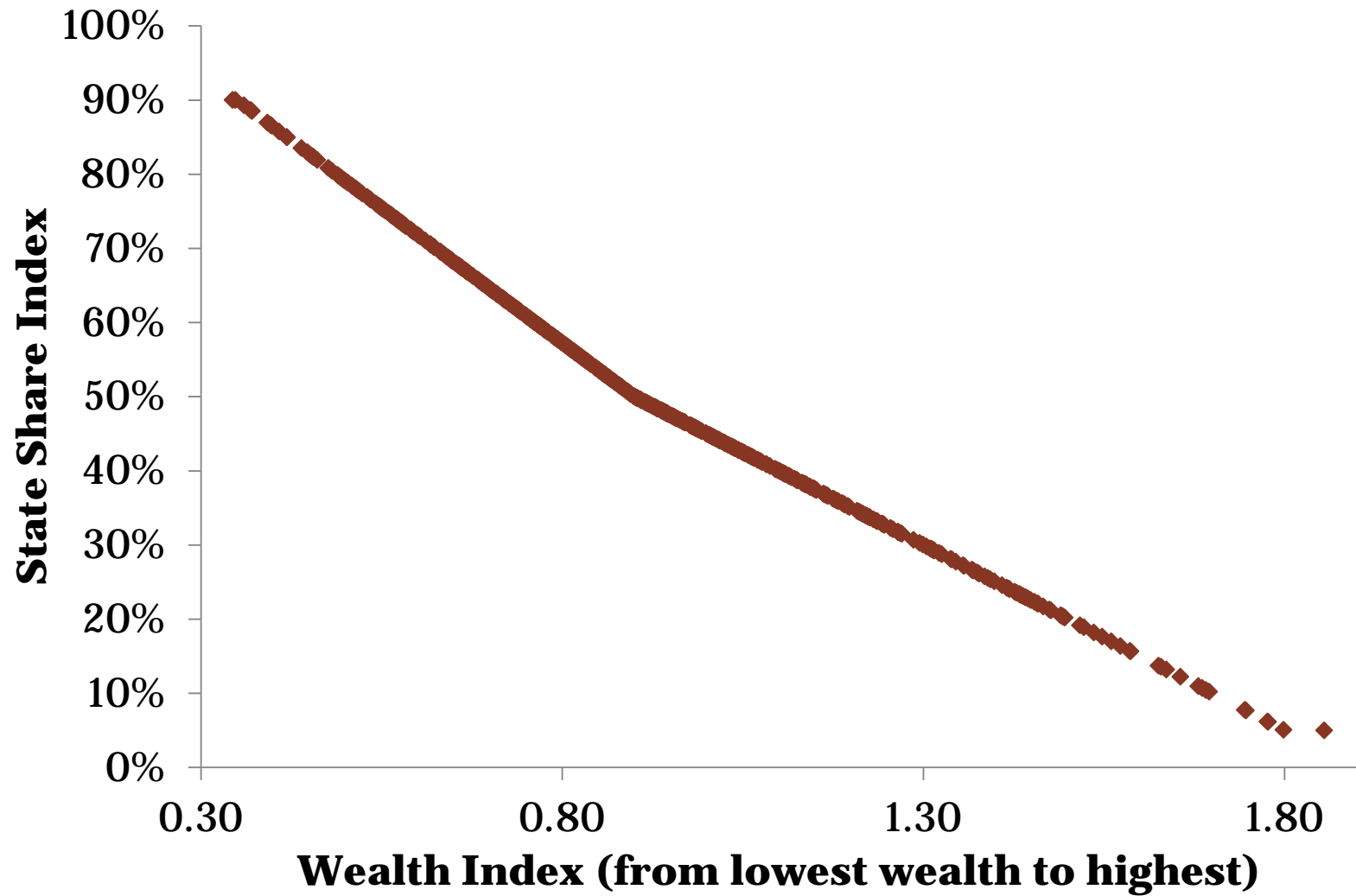
- Valuation index – District 3-year average valuation per pupil divided by State 3-year average valuation per pupil
- Income index – average of:
  - Median income index = District median income divided by Median district median income
  - District 3-year average FAGI per pupil divided by State 3-year average FAGI per pupil
- If income index < valuation index AND median income index  $\leq 1.5$  then wealth index = 60% valuation index + 40% income index, else wealth index = valuation index
- Income index lowers index for high valuation/relatively low income districts, but does not increase any district's index

# State Share Index – Current and Executive Proposal



- **State Share Index**
  - Wealth is inversely related to state share
  - Index ranges between 5% and 90%
  - “Bend” in the index directs more state funds to districts with lower wealth
  - Used in the calculation of the Opportunity Grant and a number of other formula components

## State Share Index



# Charge-off – H.B. 64 House Plan



- Charge-off = charge-off rate x district valuation
- Valuation is a 6-year average for the districts that have agricultural property that is more than 20% of total real property, which tends to lower these districts' valuations
- Valuation is a 3-year average for all other districts



# Charge-off – H.B. 64 House Plan



- Charge-off rate varies based on the median income index of the district.
- In general, a district's rate is equal to a base rate of 20 mills times its median income index
- Index values above the statewide median were adjusted so that highest rate was capped at 26 mills
- For FY16 and FY17, rates above 20 mills were phased-in at 50% and 60%, respectively, so that the highest rate was 23 mills in FY16 and 24 mills in FY17
- Lowest projected rate was approximately 10.5 mills

# Total Opportunity Grant



- Total opportunity grant = formula amount x formula average daily membership (ADM)
- H.B. 49 maintains the formula amount from FY 2017 (\$6,000) for both FY 2018 and FY 2019

# Opportunity Grant



- **Current and Executive:**
  - Opportunity grant = total opportunity grant x state share index  
State share index between 5% and 90%; average 49.6% in FY17 and 50.0% in FY18 and FY19
- **H.B. 64 House Plan:**
  - Opportunity grant = total opportunity grant – charge-off
  - State share percentage = opportunity grant/total opportunity grant
  - Minimum state share percentage of 5%
  - Highest state share percentage was projected to be from 90% to 91%; average 53.8% in FY16 and 53.7% in FY17

# Opportunity Grant



- Largest funding component (61%)

Current & H.B. 49 Estimated Allocation (\$ millions)	
FY17	\$4,990.8
FY18	\$5,028.0
FY19	\$5,028.0

# Targeted Assistance



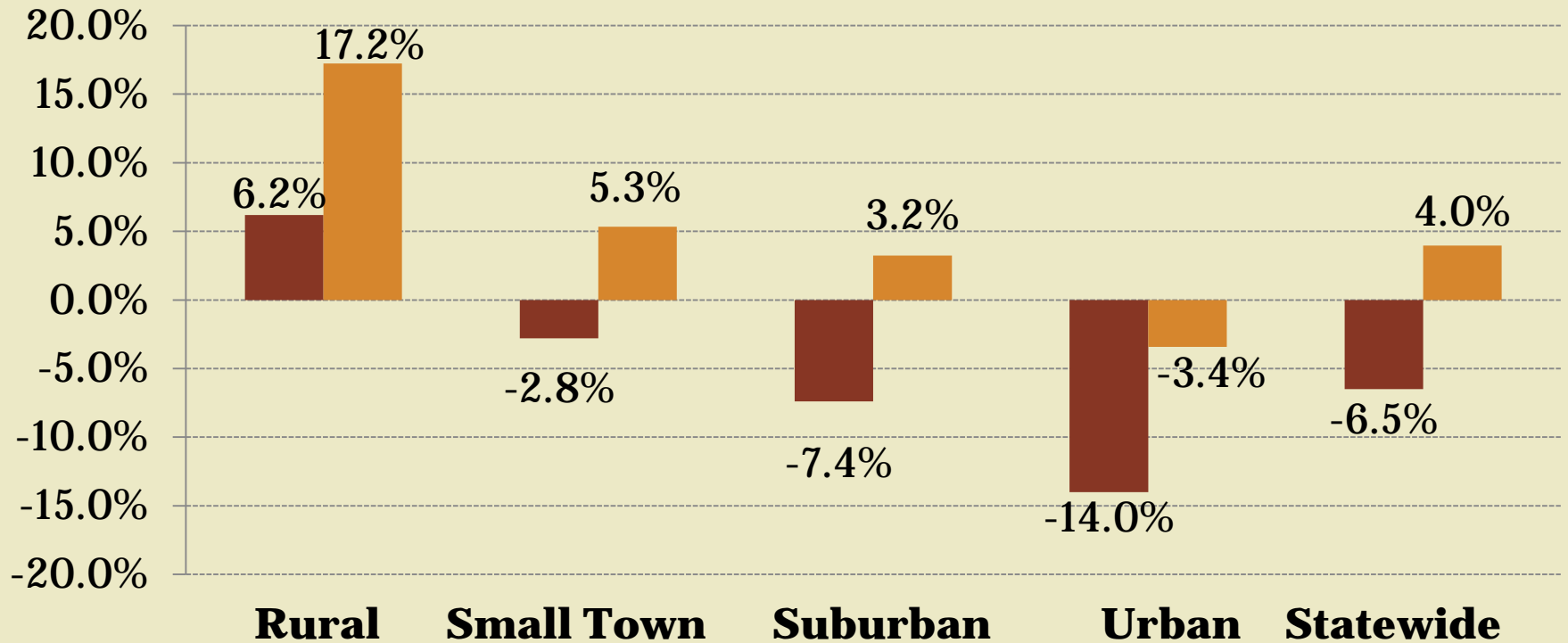
- Additional aid to 490 (80%) lowest wealth districts
- $\text{Wealth per pupil} = 50\% \text{ valuation per pupil} + 50\% \text{ FAGI per pupil}$
- $\text{Wealth index} = \text{State wealth per pupil} / \text{District wealth per pupil}$
- $\text{Threshold wealth per pupil} = 490^{\text{th}} \text{ district's}$
- $\text{Assistance} = (\text{Threshold wealth per pupil} - \text{District wealth per pupil}) \times \text{wealth index} \times .006 \times \text{ADM}$

# Recent Valuation Changes



## % Change in Real Property Value

■ TY08 to TY12   ■ TY12 to TY15

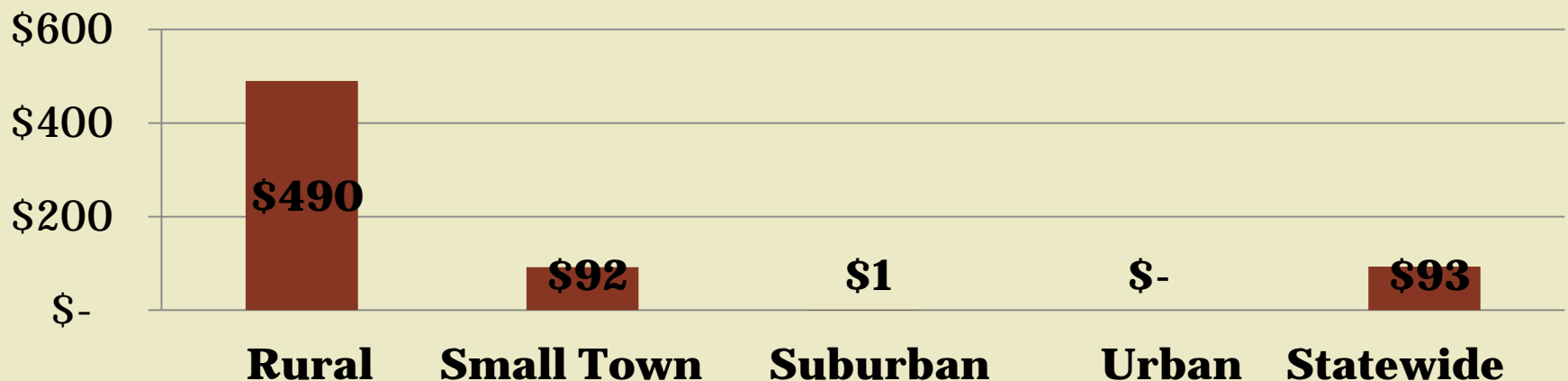


# Supplemental Targeted Assistance – Current and Executive



- Assistance = (Agricultural percentage – 10%) x 40% formula amount x ADM
- Ultimately, districts with real property value that is more than 10% agricultural property receive about \$24 per pupil for each percentage point over 10%

**Supplemental Targeted Assistance  
Per Pupil, FY17**



# Supplemental Targeted Assistance – H.B. 64 House Plan



- Districts with real property value that is 10% or more agricultural property receive an additional 40% of base targeted assistance payment
- Districts with less than 10% receive from 0% to 40% of base targeted assistance payment
- Calculation in the H.B. 64 House Plan was the same as the formula in place for FY 2014 and FY 2015 under H.B. 59.



# Targeted Assistance



- Second largest component (12%)

Current & H.B. 49 Allocations (\$ millions)			
	Base	Supplement	Total
FY17	\$755.0	\$156.6	\$911.6
FY18	\$782.4	\$170.3	\$952.8
FY19	\$810.8	\$164.1	\$974.9

# Capacity Aid



- New component in H.B. 64 that targets funding to smaller districts with relatively low total property valuation.
- Funding is based on the amount a district can raise with one mill
- Provided to districts that raise less than the median amount
- Calculated on a sliding scale – districts further from the median receive a higher amount – ranging from 0 to 2.5
- This scale (capacity ratio) is multiplied by per pupil amounts of \$767 in FY18 and \$779 in FY19 and then by formula ADM

# Capacity Aid



- Relatively small component (2%)

Current & H.B. 49 Estimated Allocation (\$ millions)	
FY17	\$175.4
FY18	\$170.1
FY19	\$174.0

# Districts Are Different Sizes



- **Total ADM**
  - Average – 2,800
  - Maximum – 71,000 (7 above 20,000)
  - Minimum – 70 (15 below 400)
- **Geographic Size**
  - Average – 68 square miles
  - Maximum – 546 (9 above 300)
  - Minimum – 1 (8 provide no transportation)

# Transportation – Current



- Compute statewide cost per rider and cost per mile from previous fiscal year.
- Base is greater of district's current year riders x statewide cost per rider or district's current year miles x statewide cost per mile.
- Lower density, rural districts tend to benefit from calculation based on miles.
- Greater of 50% or state share index is applied to base.

# Transportation Supplement



- A transportation supplement is targeted to districts with low density
  - $\text{Density} = \text{District total ADM} / \text{District square miles}$
- Transportation supplement percentage
  - $(\text{Density threshold} - \text{District density}) / 100$ 
    - ✦ Density threshold = 50 in FY17, FY 18, and FY 19
- Transportation supplement
  - $\text{Transportation supplement percentage} \times \text{District mile base} \times 0.55$

# Transportation - Executive



- H.B. 49 reduces minimum state share from 50% in FY 2017 to 37.5% in FY 2018 and 25% in FY 2019
- 4<sup>th</sup> largest component (6%)

## FY17 & H.B. 49 Allocations (\$ millions)

	Base	Supplement	Total
FY17	\$471.8	\$54.8	\$526.5
FY18	\$430.2	\$54.6	\$484.8
FY19	\$410.2	\$54.6	\$464.9

# Students Have Different Needs



- **Special Education**
- **Economically Disadvantaged**
- **Career-Technical Education**
- **Gifted Education**
- **Limited English Proficient**
- **K-3 Literacy**



# Districts Face Different Challenges



- **Disabled as % of Total**
  - Average – 13.5%
  - Maximum – 24.1% (27 at or above 20%)
  - Minimum – 4.5% (93 at or below 10%)
- **Economically Disadvantaged**
  - Average – 43.7%
  - Maximum – 100% (36 above 95%)
  - Minimum – 0% (7 below 5%)
- **Limited English Proficient**
  - Average – 1.2%
  - Maximum – 31.9% (36 at or above 5%)
  - Minimum – 0% (184 at 0%)

# Additional Categorical Funding



- Generally, districts are allocated an additional per pupil amount for students in each category and the state share index is applied.
- Formula for economically disadvantaged students takes concentration of these students into account, but not state share index.
- A certain amount of K3 literacy funding is provided to every district without state share index applied.
- Gifted funding allocated based on inputs.
- H.B. 49 does not change category amounts.

# Special Education



- Special education additional funding = category amount x category ADM x state share index; summed over six categories.

Current & H.B. 49 Category Amounts	
Cat. 1	\$1,578
Cat. 2	\$4,005
Cat. 3	\$9,622
Cat. 4	\$12,841
Cat. 5	\$17,390
Cat. 6	\$25,637

# Special Education



- Third largest funding component (10%)

Current & H.B. 49 Estimated Allocations (\$ millions)	
FY17	\$822.8
FY18	\$832.0
FY19	\$832.0

# Career Technical Education



- Career-technical education additional funding = category amount x category ADM x state share index; summed over five categories.
- Also includes an amount per pupil regardless of category that is transferred to lead district of CTPD.

Current & H.B. 49 Category Amounts	
Cat. 1	\$5,192
Cat. 2	\$4,921
Cat. 3	\$1,795
Cat. 4	\$1,525
Cat. 5	\$1,308
Lead district	\$245

# Career Technical Education



- Less than 1% of total funding allocation

Current & H.B. 49 Estimated Allocations (\$ millions)	
FY17	\$57.7
FY18	\$57.9
FY19	\$57.9

# Limited English Proficient



- LEP additional funding = category amount x category ADM x state share index; summed over three categories.

Current & H.B. 49 Category Amounts	
Cat. 1	\$1,515
Cat. 2	\$1,136
Cat. 3	\$ 758

# Limited English Proficient



- Less than 0.5% of total funding allocation

Current & H.B. 49 Estimated Allocations (\$ millions)	
FY17	\$30.9
FY18	\$32.2
FY19	\$32.2



# K-3 Literacy



- K-3 literacy additional funding = K-3 ADM x (Base per pupil amount + Additional per pupil amount x State share index).

Current & H.B. 49 Amounts	
Base (Not equalized)	\$127
Additional (Equalized)	\$193

# K-3 Literacy



- About 1.5% of total funding allocation

Current & H.B. 49 Estimated Allocations (\$ millions)	
FY17	\$112.8
FY18	\$113.2
FY19	\$113.2

# Economically Disadvantaged



- Funding is targeted to districts with high concentrations of economically disadvantaged students through an index.
- Index is the district's percentage of students who are economically disadvantaged divided by the statewide percentage, with the result squared.
- Economically disadvantaged funding =  
Economically disadvantaged ADM x per pupil amount x index
- Per-pupil amount is \$272.

# Economically Disadvantaged



- About 5% of total funding allocation
- Since this funding calculation does not use the state share index & ADM used in the simulation is constant, estimated allocation is the same for all three years.
- \$429.8 million

# Gifted



- Funds \$5.05 per pupil for identification
- Funds a gifted coordinator for every 3,300 students, with minimum of 0.5 and maximum of 8
- Fund gifted specialist for every 1,100 students, with minimum of 0.3
- Funded amount for both coordinators and specialists is \$37,370
- About 1% of funding allocation
- Estimated funding is \$81.2 million each year

# Performance Bonuses



- Two new components in H.B. 64 based on district four-year graduation rates and third grade reading proficiency rates intended to incentivize performance
- Per-pupil amount for bonus payments is 7.5% of formula amount (\$450 in FY17)
- Uses the state share index to equalize funding

# Performance Bonuses



- Less than 0.5% of total funding allocation

Current & H.B. 49 Estimated Allocations (\$ millions)	
FY17	\$28.4
FY18	\$28.3
FY19	\$28.3

# Temporary Transitional Aid



- In FY17, current law generally guarantees each district is allocated at least FY15 state aid
- H.B. 49 moves the guarantee base to a district's FY17 allocation in both FY18 and FY19, but reduces the base for districts whose total enrollment declined by 5% or more between FY11 and FY16
  - Base reduced by up to 5% on a sliding scale for districts whose total enrollment decreased between 5% and 10%
  - Base reduction capped at 5% for districts whose total enrollment decreased by 10% or more



# Temporary Transitional Aid



- Career-technical education funds remain outside the guarantee
- H.B. 49 moves performance bonuses outside the guarantee

<b>Fiscal Year</b>	<b>Number of Districts</b>	<b>Estimated Allocations (\$ millions)</b>
FY17	133	\$104.2
FY18	315	\$174.5
FY19	316	\$189.9

# Funding Limitations



- In FY17, current law generally limits increases in state aid to 7.5% of prior fiscal year
  - Career-technical education funds, capacity aid, transportation supplement, and performance bonuses are outside cap
- H.B. 49 generally limits increases to 5.0% of prior fiscal year
  - Moves capacity aid and transportation supplement inside cap

Fiscal Year	Number of Districts	Estimated Amount Above Cap (\$ millions)
FY17	151	\$492.6
FY18	131	\$466.3
FY19	103	\$359.2

# Secondary Per Pupil Guarantee – H.B. 64 House Plan



- Calculated after both temporary transitional aid and the cap
- Guaranteed each district's state aid per pupil is at least 20% of the formula amount:
  - \$1,200 in FY17
- Phased in at 50% in FY16 and FY17
- Applied to about 28 higher wealth districts each fiscal year

# Final Foundation Funding

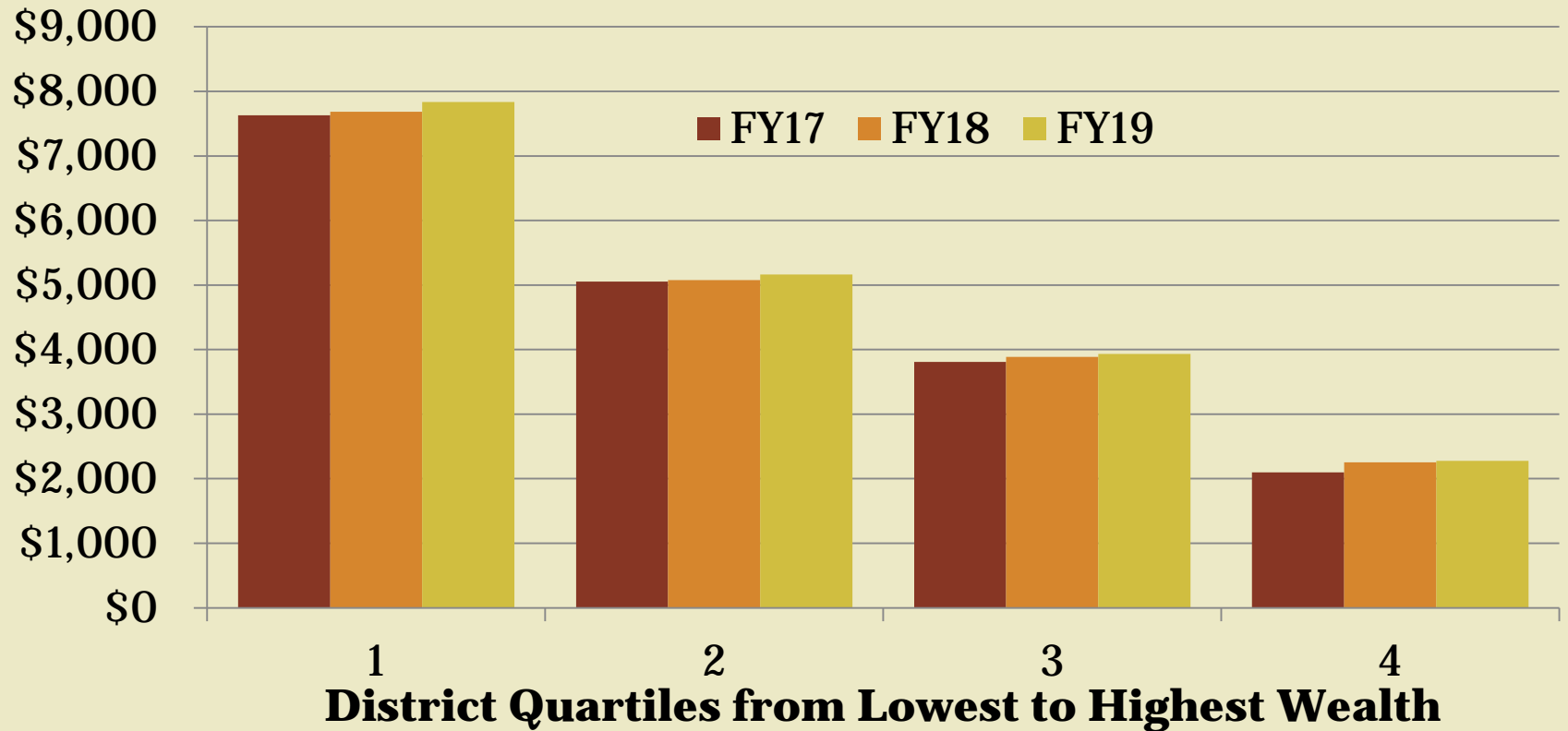


<b>Current &amp; H.B. 49 Estimated Allocations (\$ millions)</b>	
<b>FY17</b>	<b>\$7,779.3</b>
<b>FY18</b>	<b>\$7,918.4</b>
<b>FY19</b>	<b>\$8,047.1</b>

# Lower Wealth Districts Receive More State Aid Per Pupil



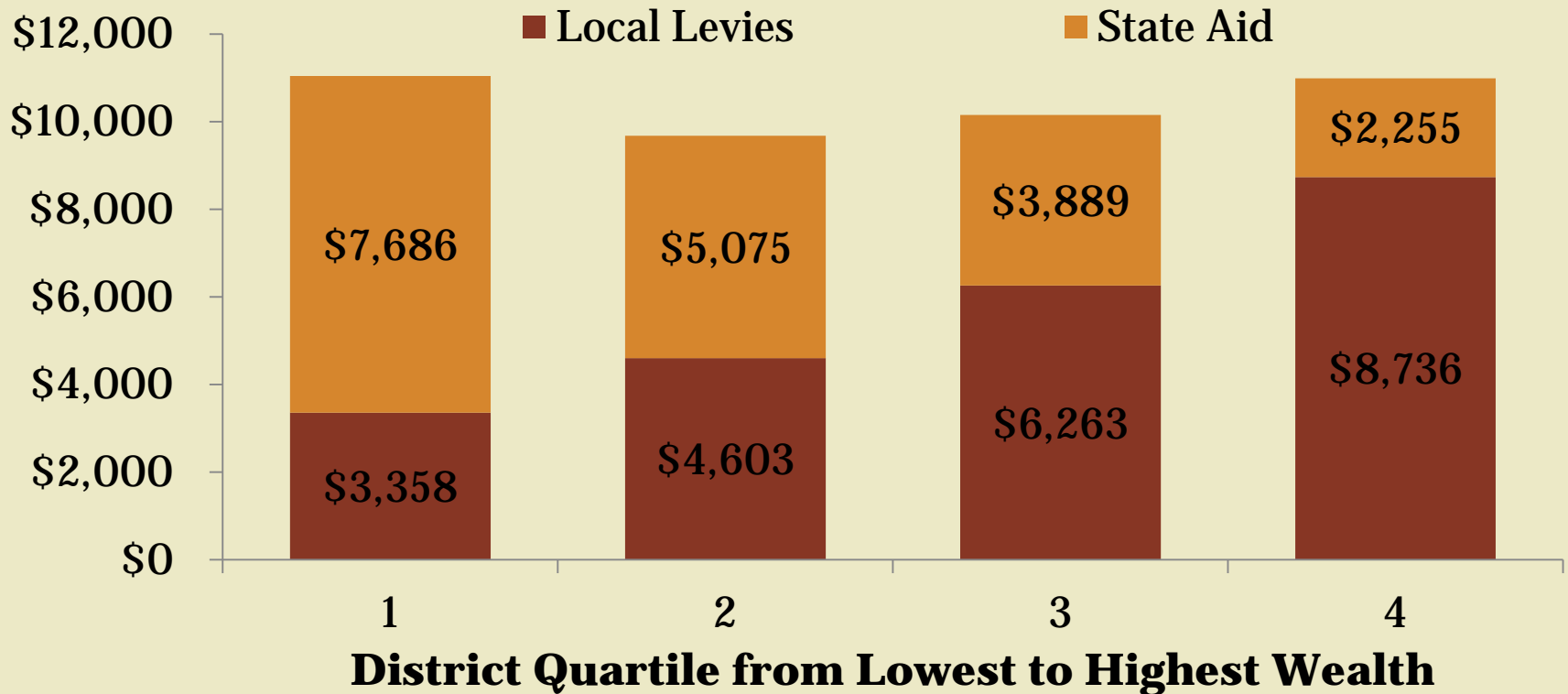
## Average State Aid Per Pupil



# State Aid Helps to Counteract Effects of Varying District Wealth



## Estimated Local Operating Levies and State Aid Per Pupil, FY 2018



# Joint Vocational School Districts



- Opportunity grant = (formula ADM x formula amount) – 0.5 mills of district valuation
  - May not be less than 5% x formula amount x formula ADM
- State share percentage = Opportunity grant / (Formula ADM x Formula Amount)
- Receives special education, career-technical education, LEP, and economically disadvantaged additional funding
- Subject to guarantee and cap
  - Career-technical education funds and graduation bonus exempt from the guarantee and cap in FY17

# Total JVSD Funding



- H.B. 49 adjusts core foundation funding by guaranteeing and limiting foundation funding in substantially the same manner as traditional school districts.

Current & H.B. 49 Estimated Allocations (\$ millions)	
FY17	\$293.0
FY18	\$292.4
FY19	\$292.4



# Funding Choice Programs



- Generally, the formula allocates funding to districts based on students who live in the district.
- If the student is educated elsewhere, funding for the student is generally transferred to educating district or school.
  - Community and STEM schools
  - Open enrollment
  - Nonpublic schools through scholarship programs

# School Choice Program Spending Growing Each Year



## School Choice Spending, FY 2007-FY 2016

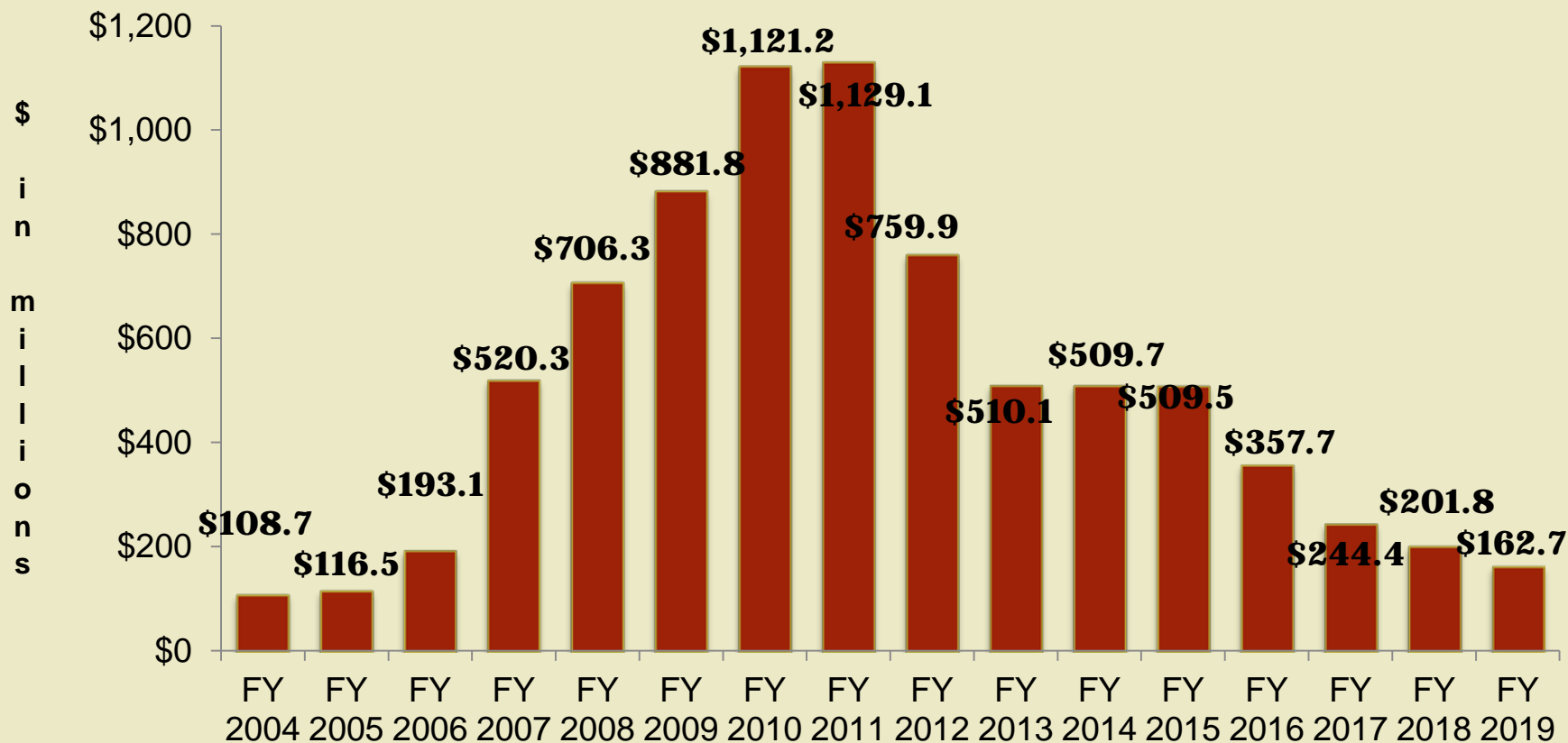


# Tangible Personal Property Tax Reimbursements



- In FY16 and FY17, fixed rate operating levy reimbursements are phased out by an incremental 1% to 2% per year of a district's total state and local resources
  - The phase-out percentage is determined by district capacity so that lower wealth district payments are phased out more slowly
- Beginning in FY18, fixed rate operating levies are phased-out based on a uniform 5/8 mill of valuation for both traditional districts and JVSDs (S.B. 208)
- Executive proposal maintains the S.B. 208 mechanism

# Tangible Personal Property Tax Reimbursements

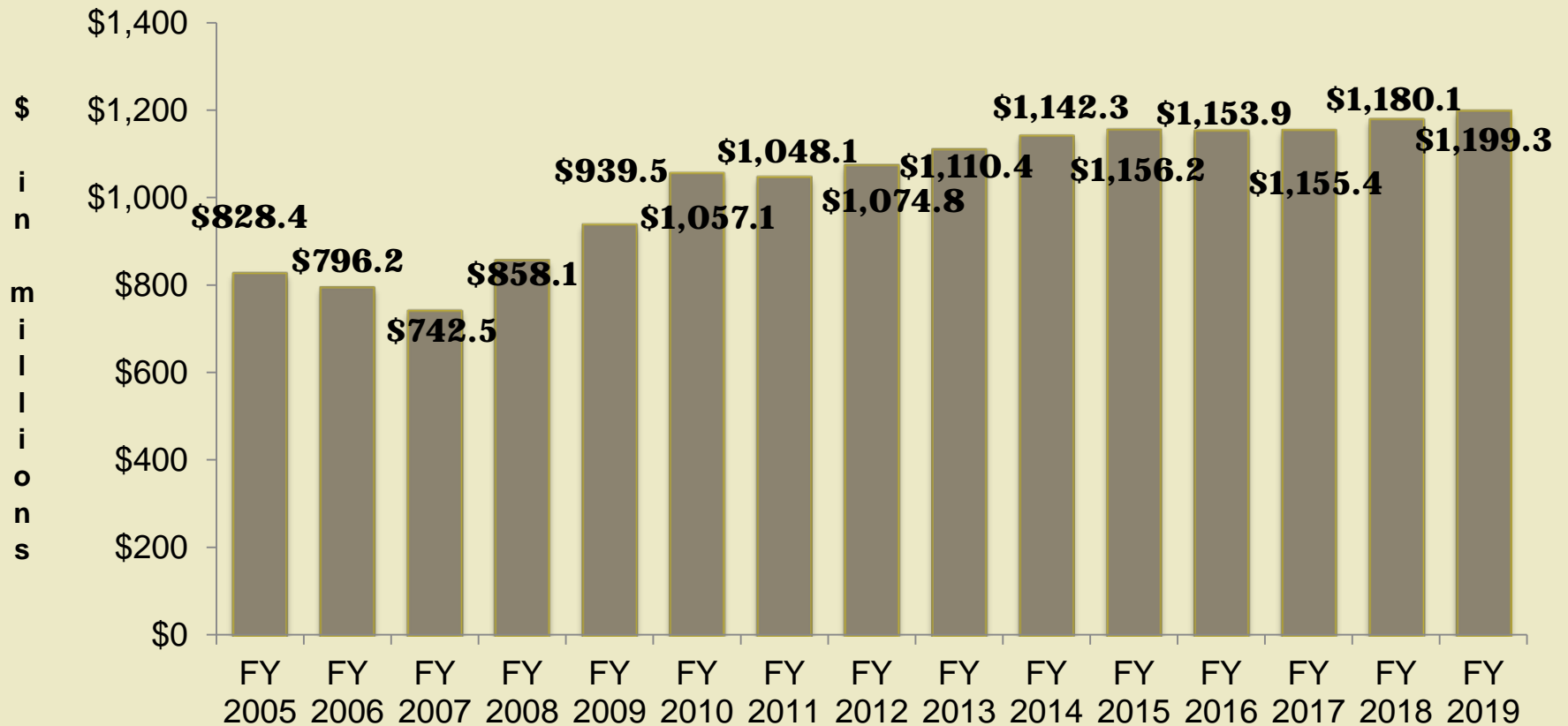


# TPP Supplement



- Supplemental payments to guarantee that the combined amount of foundation aid and fixed rate operating direct reimbursements for a traditional district does not fall below:
  - 100% of the FY 2015 level in FY 2016
  - 96% of the FY 2015 level in FY 2017
- Funded by transfers from the Medicaid Reserve Fund and FY15 GRF ending balance
- In FY 2017, 76 districts to receive an estimated total of \$44.0 million.
- Executive proposal does not provide the supplement

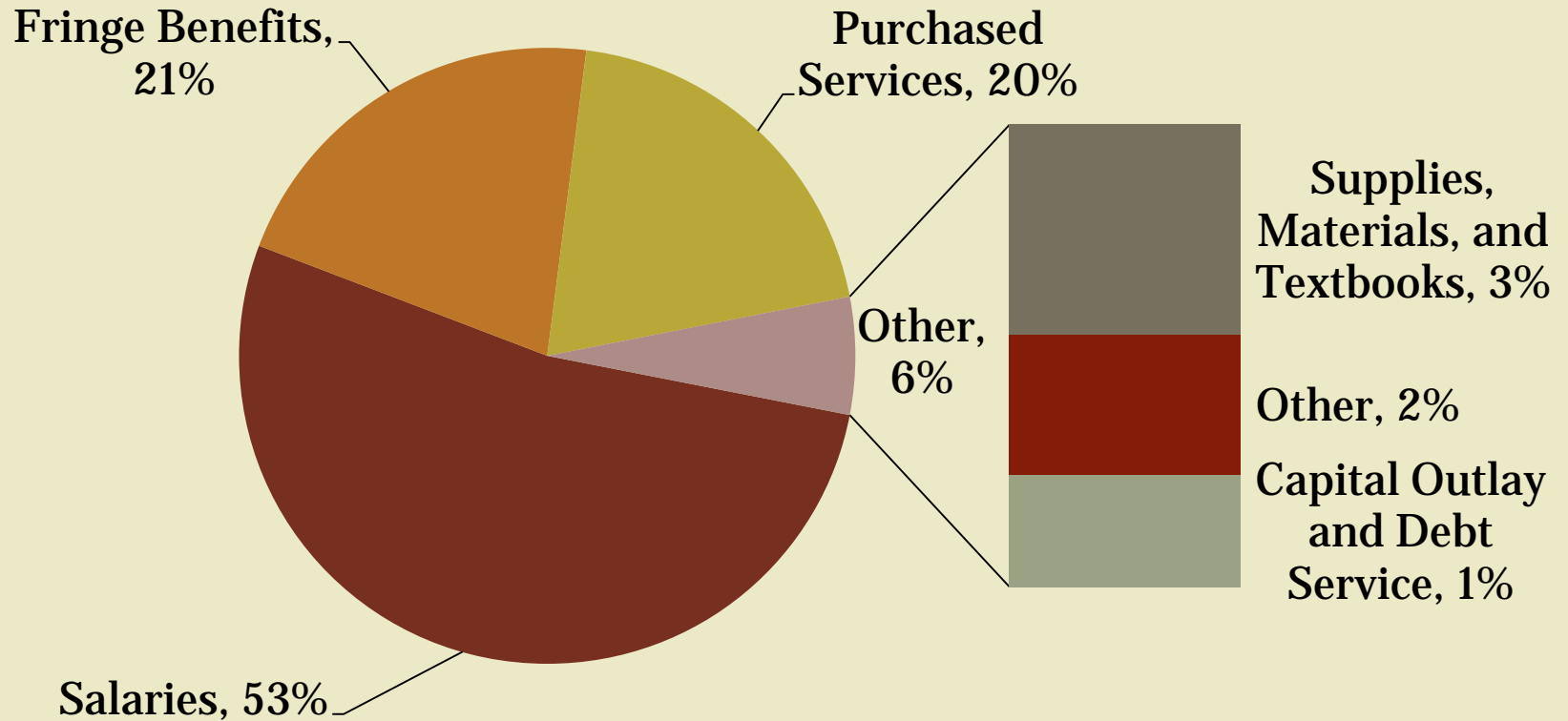
# Property Tax Rollbacks



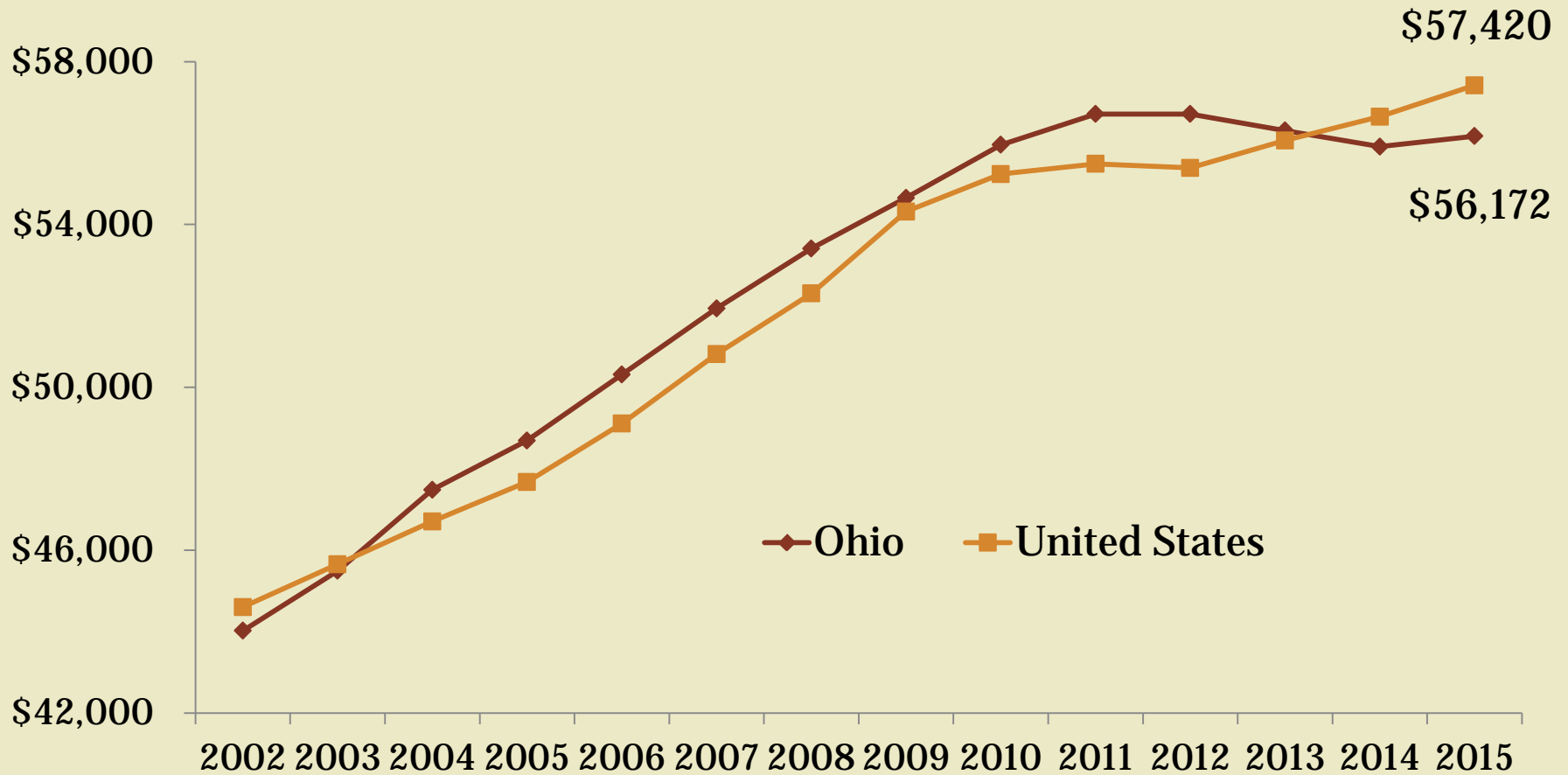
# Education is Labor Intensive



## School District General Fund Expenditures by Category FY 2015



# Ohio's Average Teacher Salary Below National Average





# Ohio's Per Pupil Operating Expenditures Continue to Exceed National Average



# Per Pupil Spending Varies Across Different Types of Districts

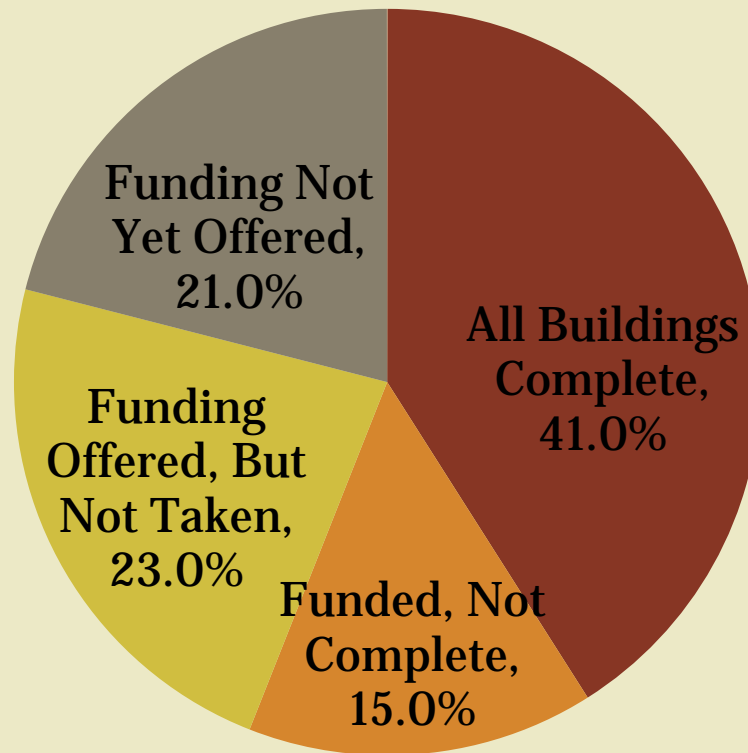


District Types – Description		Spending Per Pupil
Rural	High poverty, small population	\$9,960
Rural	Average poverty, very small population	\$10,022
Small Town	Low poverty, small population	\$9,575
Small Town	High poverty, average population	\$9,767
Suburban	Low poverty, average population	\$10,710
Suburban	Very low poverty, large population	\$11,723
Urban	High poverty, average population	\$11,162
Urban	Very high poverty, very large population	\$14,082
State Average		<b>\$10,985</b>

# SFC Funding Offered to 79% of Districts & JVSDs



## District and JVSD Status for Completing Master Facility Plans, July 2016



# Additional Resources



- **LSC website**
  - School Funding Complete Resource
  - Redbooks and Greenbooks
  - Ohio Facts
  - Infographics
  - Historical Revenues and Expenditures Tables
- **ODE website**
  - District Payment Reports
  - iLRC

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