

Ohio Senate Finance Committee

Senate Bill 376

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

Jared Bunting, CFO

Trimble Local Schools

Michael P. Hanlon, Jr., Ph.D., Superintendent

Chardon Local Schools

November 17, 2020

Time 1:00 PM

Chairman Dolan, Vice-Chair Burke, Ranking Minority Member Sykes and members of the Senate Finance Committee. I am Jared Bunting, Chief Finance Officer of the Trimble Local Schools of Athens County. Joining me is my colleague, Michael Hanlon, Superintendent of the Chardon Local School District located in Geauga County. Dr. Hanlon and I serve as co-chairpersons of the Distribution Subcommittee of the Cupp-Patterson School Funding Workgroup. Thank you for the opportunity to submit our testimony today in support of Senate Bill 376 - the proposed Fair Funding Plan for Ohio's Schools.

Background

The School Funding Workgroup began in 2017 and produced an initial funding model in 2019. This work was completed by a dedicated group of legislators, school leaders, education finance experts and consultants. It represents the work of practitioners in school districts across the State of Ohio.

School funding in Ohio is a shared state and local responsibility. This reality is clearly spelled out in our state's constitution. School funding is a partnership between the two governments.

The pivotal question remains: how do we determine the fair share of this responsibility between the two partners? With over 600 districts, each with its own blend of property and income wealth, how are we to determine a district's fair share?

Fair Funding Plan Overview

Within the Fair School Funding Plan, a district's local share is determined by blending its own unique ability to generate revenue based on income level and property value (This ability to raise local revenue is also referred to as a district's "capacity").

A district's capacity is determined by considering the total federal adjusted gross income (FAGI) and median FAGI reported by the residents of the district on their federal income tax returns, as well as the value of the real residential, commercial/industrial and agricultural property to provide a more accurate measure of the district's true wealth, and thus, capacity.

This new methodology provides a stable, predictable state/local share in K-12 education funding which is based exclusively upon a community's ability to partner in the expense of educating a child. Different than the current system, the capacity factors of the individual district will not be disrupted by changes in other districts statewide.

Today, we will focus on what presumably has been the most complex aspect of the Fair Funding Plan - the proposed model for the distribution of funds to school districts. Our testimony will provide an overview of the Fair Funding Plan Distribution methodology and addresses some of the modifications that have occurred to address issues raised with the "as introduced" version of the plan related to the equitable application of resources to Ohio's school districts. We intend to provide an overview of what the committee believes is a more rational, understandable and more effective method of accomplishing this objective.

The Distribution Committee focused its efforts on evaluating Ohio's current method of distributing funds appropriated by the Ohio Legislature to each of Ohio's 609 public school districts. There are clear, undeniable differences among school districts including relative property wealth, income levels, needs within distinct student populations, physical geography and many other factors that impact the operation of a school district and the ability to effectively educate its students.

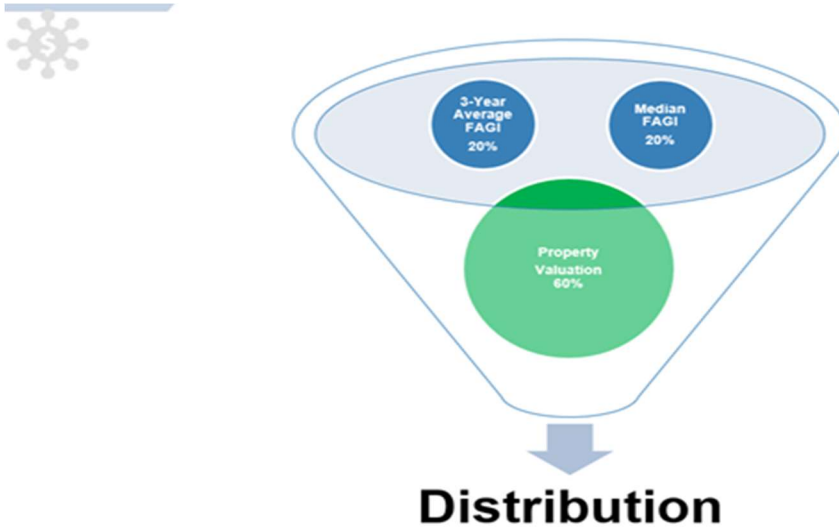
All public school districts in the State of Ohio are now in their second year of guaranteed funding which equates to three years

of level funding since the current budget bill froze all districts at FY2019 base levels. At the same time, fluctuations in deductions for open enrollment and EdChoice transfers continued unaffected. Combine this with the recent pandemic and many districts have experienced a reduction in funding levels from FY2019. At this time, the State of Ohio for all intents and purposes has no school funding formula.

Proposed Fair Funding Model for Ohio's Schools

Under the proposed Fair Funding Model, the Distribution Committee developed an approach that recognizes 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 as illustrated in Figure 1 below.

Figure 1 - Distribution Overview



The question arises as to why a 60/40 split is appropriate in this approach? When considering the distribution of income and property valuation across the State of Ohio, we see that there is a higher total amount of income than property valuation. Therefore, adjusting these relative weights to the proposed amounts brings income and property valuation into better balance within the model and recognizes the contributions of each to the overall funding methodology.

Benefits Associated with the Proposed Fair Funding

There are a number of clear benefits to the proposed distribution model being discussed today. Specifically:

- The capacity of school districts to support education can be calculated using property valuation and income within their respective communities in an equitable manner.

- All districts are calculated the same way. The result will not change unless there is a change in a district's 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.
- The new calculation accounts for demographic changes in districts (growing or declining enrollment) since it is based on a K-12 headcount calculation.
- By recalculating capacity annually, less funding disruption occurs as a result of smaller, more frequent, adjustments to local/state share rather than freezing for two years and getting a larger change with each succeeding biennial budget.
- The new base cost and distribution methodology offers increased stability and allows for better projections and planning by school districts.

Chairman Dolan, Vice-Chair Burke, Ranking Member Sykes and members of the committee, thank you for the opportunity to be here today to present on this important topic. Dr. Hanlon will now speak to the calculations associated with the distribution methodology.

The Need for Comprehensive Funding Overhaul

Funding of the base cost in the Fair Funding Plan is achieved by a combination of state resources and locally-generated tax revenue. In Senate Bill 376, the split between state and local responsibility is based on each school district's ability to share in that cost - or fiscal capacity to generate a local share determined by using a combination of both property and income wealth.

Property Valuation as a Component of District Capacity

Property value carries a 60 percent weight in determining the overall capacity of a school district. The per pupil property valuation capacity for a district is calculated as shown in Table 1.

Table 1. Total Property Valuation Capacity Per Pupil

$\text{Total Property Valuation/Enrollment} * 0.60 =$ $\text{Total Property Valuation Capacity/Pupil}$
--

Income as a Component of District Capacity

Income capacity is calculated in equal parts of total personal Federal Adjusted Gross Income (FAGI) of the district; and, median income (FAGI) from individual tax return data. Income capacity has a 40 percent weight (20 percent for each component) in determining overall local income capacity. The income components are calculated individually as shown in Tables 2 and 3 below.

Table 2. Total Income Capacity Per Pupil

$$\text{Total FAGI/Enrollment} * 0.20 =$$

$$\text{Total FAGI Income-based Capacity/Pupil}$$

Table 3. Median Income Capacity Per Pupil

$$\text{Median FAGI} * \text{Number of Federal Tax Returns/Enrollment} * 0.20 =$$

$$\text{Median Income-based Capacity/Pupil}$$

Note: The Median FAGI value is derived from the submitted federal tax returns.

Using 20 percent for each income component, recognizes not only the total income of a particular school district, but also the distribution of that income in relation to its taxpayers. This approach creates greater sensitivity within the model to the distribution of income within a school district.

When these three capacity components are combined, we arrive at a total local capacity value per pupil for each school district (See Table 4).

Table 4. Total District Capacity Per Pupil

$$\text{Total Property Valuation Capacity/Pupil} +$$

$$\text{Total FAGI Income-based Capacity/Pupil} +$$

$$\text{Median Income-based Capacity/Pupil} =$$

$$\text{Total District Capacity/Pupil}$$

Accounting for Total Local District Capacity

It is understood that all districts have some level of local funding capacity, but the variability of that capacity among Ohio’s school districts is significant. Treating districts equitably in terms of state and local funding of schools in relation to each district’s unique capacity has been a long-standing challenge to legislators and taxpayers alike and something that Ohio has wrestled with for over 30 years.

Once the total local capacity per pupil of a district is determined, a percentage multiplier – charge-off - is used to arrive at the district’s final local share. The percentage ranges from a floor of 0.0 percent for low capacity districts to 2.5 percent for higher capacity districts, with an individual district’s percentage based on its median income in relation to the statewide median income.

The local share multiplier is determined by computing a ratio as shown in Table 5.

Table 5. Local Share Multiplier Index Calculation

$$\text{District Median FAGI/Statewide Median FAGI} = \text{Local Share Multiplier Index Value}$$

The district with a median income exactly at the statewide median (district 305/609 in rank order of median income) would have a ratio of 1.0. The 304 districts below the median would have a ratio less than 1.0 while the 304 districts above the median would

be greater than 1.0. All 609 districts in the state will fall equally above or below that median index value.

When considering districts with median incomes below the statewide median the ratio is multiplied by 2.25 (the percentage “charge off” assigned to the district exactly at the statewide median value) resulting in a lesser charge-off applied for their local share responsibility. It is important to note that with a floor value of 0.00 percent, the local share responsibility for all districts below the statewide median FAGI is in direct relationship to the statewide median percentage (See Table 6).

Table 6. Local Share Multiplier for Districts with an Index Ratio
Less than 1.0

<p style="text-align: center;">District Ratio < 1.0*2.25= Local Share Percentage for Districts Below the Median</p>
--

Districts with median FAGI values above the statewide median would have a higher percentage “charge-off” applied, but not higher than 2.50 percent. The computation of the same ratio would occur. Districts would then be placed in rank order for purposes of determining the 40th highest capacity district. The 40 highest-capacity districts are capped at the 2.50 percent local share multiplier value. The remaining 264 highest capacity districts “fit” between 2.25 percent and 2.50 percent using a similar computation as for the districts below the statewide median with one adjustment to the calculation to assign the appropriate percentage within the remaining range (See Table 7).

Table 7. Local Share Multiplier for Districts with an Index Ratio Greater than 1.0

$$\frac{\{(District\ Ratio > 1 - 1) * 0.0025 / (District\ Ratio - 1)\} * 0.0225 =}{\text{Local Share Percentage for Districts Above the Median}}$$

A second question that arises is why there is essentially no proposed floor, but there is a cap for this multiplier? All districts have some level of income and property capacity, so no district will be at 0.00%, but factors of poverty and low property wealth do create a floor and a limited ability for taxpayers to support schools. Conversely, the ability to increase revenue and property valuation is essentially unlimited and with that growth, the capacity to support schools at the local level increases. At some point, however, a cap is necessary for high-capacity districts as it is inherently logical that the state should provide some level of funding for all students in Ohio.

By extending the low-capacity range to zero we fund the students with the greatest need in direct relationship to the median with minimal cost impact to the overall plan. For students in high-capacity districts, the cap serves to ensure that the state is still providing some level of funding for all students where districts at the highest levels would otherwise receive nothing.

Once the local share per pupil amount is determined, the state pays for the balance of the calculated base cost per pupil amount

for the district so that the district is assured of having the full amount of the calculated base cost funding.

It is important to recognize that the Cupp-Patterson Workgroup addressed issues of equity that were raised in relation to the “as introduced” version of the plan. Senate Bill 376 – amends the “as introduced” version by multiplying the district’s capacity stated in a per pupil dollar amount by varying percentages ranging from 2.50 percent for higher wealth districts to 0.00 percent for lower wealth districts, replacing the 2.50 percent to 2.00 percent range in the “as introduced” version. The district precisely at the statewide median income is charged 2.25 percent instead of the 2.3 percent in the “as introduced” version to arrive at a more effective determination of a district’s local share responsibility.

Under the “as introduced” model, too many districts of differing typology fell into the same local share capacity categories. By making the proposed adjustments to the Local Share Percentage Multiplier limits, it now results in more appropriate ranges for the determination of local share in school districts. This revision to the distribution methodology results in additional funding to the highest need districts as the local capacity declines.

The revisions to the local share calculation provide greater sensitivity to issues of equity for low-capacity (below the median) districts, a more effective/logical flow for categorical funding and a better overall fit for high-capacity (above the median) districts.

A final example of the distribution methodology is provided in Table 8 on the following page with the conceptual elements for calculating state and local cost share included in one example:

Table 8. Example of Base Cost Distribution Calculation

A - District Per Pupil Base Cost Funding Amount	\$7,200
B - District Enrollment	1,000
C - District Base Cost	\$7,200,000

CALCULATION OF PROPERTY VALUATION CAPACITY

D - Total Taxable Property Valuation	\$166,666,667
E - Valuation Per Pupil (D/B)	\$166,667
F - Per Pupil Property Valuation Capacity (E*.60)	\$100,000

CALCULATION OF TOTAL INCOME CAPACITY

G - Total Federal Adjusted Gross Income (FAGI)	\$200,000,000
H - Total FAGI Per Pupil (G/B)	\$200,000
I - Per Pupil Total Income-Based FAGI Capacity (H*.20)	\$40,000

CALCULATION OF MEDIAN INCOME CAPACITY

J - Median Federal Adjusted Gross Income (FAGI)	\$30,000
K - Number of Federal Tax Returns	3,333
L - Total Median Income-Based FAGI (J*K)	\$100,000,000
M - Total Median Income-Based FAGI Per Pupil (L/B)	\$100,000
N - Per Pupil Median Income-Based FAGI Capacity (M*.20)	\$20,000

CALCULATION OF TOTAL LOCAL CAPACITY/LOCAL SHARE OF BASE FUNDING

O - Total Per Pupil Local Capacity (F+I+N)	\$160,000
P - Local Share Percentage Multiplier	2.00%
Q - Per Pupil Local Share of Base Funding (O*P)	\$3,200
R - Local Share of Total Base Funding (Q*B)	\$3,200,000

CALCULATION OF STATE SHARE OF BASE FUNDING

S - State Share of Base Cost Funding (C-R)	\$4,000,000
--	-------------

Chairman Dolan, Vice-Chair Burke, Ranking Minority Member Sykes, thank you for this opportunity to offer testimony on the proposed Fair Funding Model for Ohio's Schools. My colleague and I stand ready to address questions from the subcommittee at the pleasure of the Chairmen.