



Testimony for the Ohio Senate
Finance Committee

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Testimony on House Bill 110

May 17, 2021

Chairman Dolan, Vice-Chair Gavarone, Ranking Member Sykes, and members of the Senate Finance Committee, good morning. My name is Tom Hosler and I am the Superintendent of Perrysburg Schools and am joined with Akron Public Schools CFO Ryan Pendleton and Mike Sobul of Forecast5 Analytics, a former school treasurer and State Department of Taxation Research Director. Today, we are offering testimony in support of House Bill 110.

This plan funds students where they need it most through a meticulously constructed base cost and provides other funding components to support Ohio's youth in a variety of important ways. This comprehensive plan starts with the moment students are picked up at the crack of dawn until they log off their school computer that night. Everything educationally that occurs between those two events has been considered. Constructing base costs was a painstaking process of determining component-by-component the necessary instructional and support personnel, services, and building and district leadership essential in providing every public school student the basic foundation funding - before any additional services or categoricals required by students - for a quality educational opportunity. Most importantly, this formula would allow funding to flow where it is needed and will make an immediate impact for students in the classroom where 75% of state funding would be provided for combined direct and indirect classroom funding. This is the benefit of having the perspective of those of us in the field be part of the work group while spending nearly three and a half years developing this formula.

My colleagues on the Fair School Funding Plan WorkGroup have dedicated their time working on each of their respective categorical aid components. They have become experts and their recommendations are both essential and comprehensive.

While all these categoricals are essential building blocks in ensuring all Ohio students achieve their greatest potential, I want to take a moment to highlight a few. Under this plan, the state would provide full funding for **Special Education** for students with disabilities as well as additional monies for catastrophic Special Education situations. With nearly 50% of Ohio's students living in poverty, Ohio's treatment of its **Economically Disadvantaged** students led to the conclusion that Ohio's current funding level for these students is woefully inadequate. H.B. 110 provides an immediate prioritized 55% increase in the state's per pupil amount for these students. The bill also calls for every 4-year-old child identified as Economically Disadvantaged to be provided access to at least 1 year of quality preschool. Finally, in a state that has school districts with as few as 7 students to more than 50,000, **Transportation** is addressed in such a way that benefits all districts with a \$45 Million annual bus purchase program - the first state bus purchase program in more than a decade. Districts benefit from changes in the calculation of density supplement funding to base those calculations on ridership instead of enrollment. For the calculation of Special Education transportation dollars, state aid will now be determined by applying the district's local share or state minimum local share directly to reported actual expenditures; the end result is nearly a 50% increase in funding for a district's most expensive transportation responsibility.

The **Direct Funding of Vouchers and Choice** is also an important component to the Fair School Funding Plan which will help end the toxic climate of the "them and us" mentality that has both divided and paralyzed traditional public, public charters, and private schools.

Change is not easy. Change makes many people uncomfortable. But, what we have today, what we must endure every budget cycle and what residents must face in the local voting booth in addressing school funding, makes all of us uncomfortable. All we have to show from our current formula is continued inequities across the state, and that is inexcusable. No plan is perfect, but this plan is very good. We owe it to them to do our best to fix this problem.

STUDENT SUCCESS AND WELLNESS FUNDS

The Governor's commitment to the wellness of our children through the Student Success and Wellness Fund initiative is greatly appreciated and commendable. The Fair School Funding Plan furthers the Governor's wellness initiatives by ensuring these funds are accounted for in a consistent and transparent manner.

We understand that the Student Success and Wellness Funds were intended to create new programming for students and communities. However, the uncertainty and instability of state funding has led many districts to supplant these funds. Prior to the FY 20-21 biennium, most school districts in Ohio were predicting an increase in state aid based on prior year increases. These expectations were referenced in districts' May 2019 five-year forecasts. Instead, every district in Ohio was placed on a state aid freeze and Success and Wellness funds were added outside of the formula. Ironically, the amount of Success and Wellness funds received by my district and many other districts was almost exactly what we were predicting in state aid. In order to keep the necessary programming in place for our students and communities, schools supplanted these funds in accordance with the state's guidance.

It has also been suggested that keeping the Student Success and Wellness Funds outside of the formula allows for more accountability. As someone who prepares a district's five-year forecast, this is simply not true. Because these funds were represented to districts as temporary or supplemental funds, they were not included in five-year forecasts. A district's five-year

forecast process is specifically designed for transparency and accountability, yet these supplemental funds remain outside of this best practice.

From the beginning, the Fair School Funding Plan WorkGroup was directed to justify every provision with substantiating research, best practices and/or sound professional judgment. To the best of the WorkGroup's knowledge, no such thorough analysis of need has been conducted in determining the increasing amounts of Success and Wellness appropriations.

Data shows that most districts already allocate several hundred dollars per pupil to address those needs, and many exceed \$1000/pupil. This fact has further contributed to the practice of districts using Success and Wellness dollars to supplant existing district General Revenue Fund expenditures because the professional managers in the district concluded that additional expenditures for those services were not needed. (Perhaps, an in depth study of student behavioral health needs and most effective remedial practices should be added to H.B. 110.)

The Fair School Funding Plan acknowledges the need for behavioral health services, a need that impacts the entire student population, not just those living in poverty. It includes in its base costs construct nearly \$400 per pupil for social, emotional needs, identifying specific professional providers such as counselors and school psychologists. This part of the base cost could be made more prescriptive should the legislature want to do so.

The Fair School Funding Plan also adds to eligible expenditures of Economically Disadvantaged DPIA funds, those expenditure categories currently authorized for Success and Wellness funds and increases the Economically Disadvantaged DPIA appropriations by \$320 million. These monies acknowledge the growing need for behavioral health services and provide additional resources for those purposes, if districts conclude they are needed to serve their students.

For these reasons and the restrictions imposed by the State Appropriation Limitation, it was decided that the current Success and Wellness funds could best serve the needs of Ohio's youth if they were used to help implement the flexible, transparent and needs based Fair School Funding Plan. This plan would enable schools to select outside partners to provide critical mental health and student support services if desired. By creating a free market where districts may choose those services and providers who best meet their students' needs will ensure supporting students where they need it most.

Governor DeWine, when submitting his K-12 budget, chose to keep the Student Success and Wellness funds with school districts and not change the funding formula citing that lawmakers have "significant ideas." The Fair School Funding Plan acknowledges and respects Governor DeWine's direction and space he is giving lawmakers.

OPEN ENROLLMENT

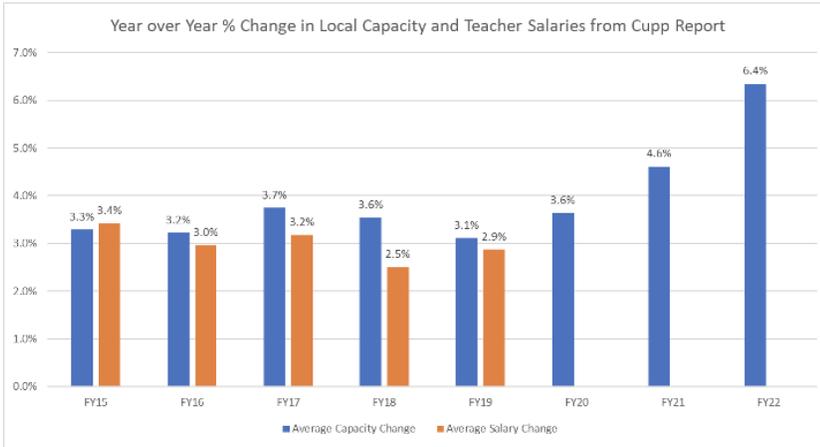
Our charge was to create a funding mechanism for open enrollment, not to create any more incentives or disincentives. Once complete, the simulations were within 2% of current law for each district. Recently, there has been a question raised about the open enrollment funding mechanism that may impact approximately 10 districts and a request has been made to the Legislative Service Commission to clarify.

Is the Fair School Funding Formula sustainable? Won't costs explode in the future as teacher salaries increase? How will the state pay for it?

These are all questions that have been asked of us. Yes, the formula is sustainable. Costs will not explode as teacher salaries increase. The state has the means within its current tax structure to support the plan.

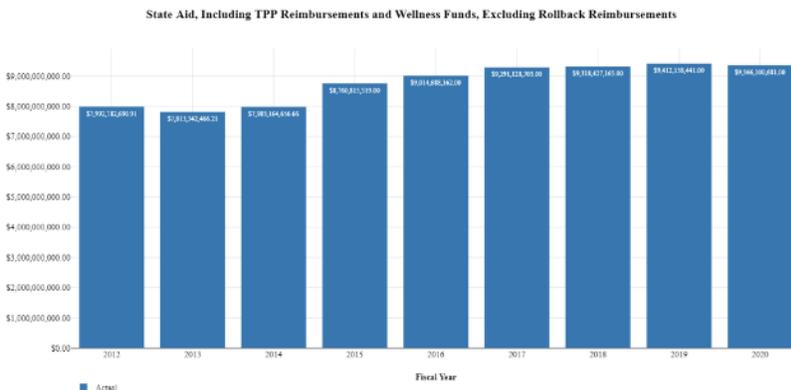
Let's start with the issue of growing teacher salaries and sustainability. It has been claimed that if FY 2020 teacher salaries were used instead of FY 2018, the cost to the state would be \$450 million higher. That is not being proposed. The plan envisions salaries and other components of base cost

increasing each year. At the same time salaries and other components are increasing, local capacity will also increase. Increasing local capacity results in the sharing of rising input costs between the state and local school district taxpayers. As the first chart shows, from FY 2015 to FY



2019, average teacher salaries grew at a slower rate than statewide local capacity in all years but one. As this trend continues going forward, the increase in costs from higher salaries will be shared between the state and local taxpayers proportionally.

To see how the state can sustain the formula into the future, we need to look at the last eight years. State general fund spending on K-12 education from FY 2012 to FY 2019 increased by about \$1.42 billion, or about \$203

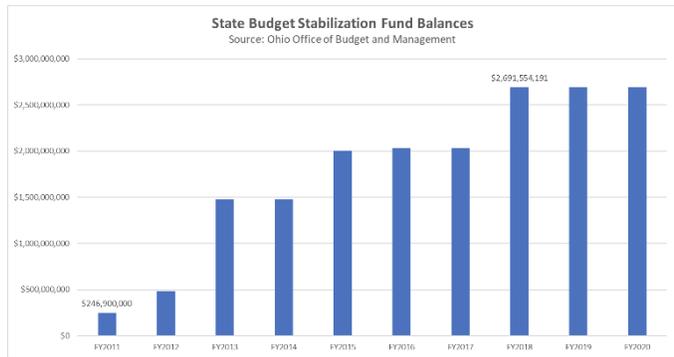


million per year, shown in the second chart. The revenue needed to implement the Fair School Funding Plan is estimated to be \$350 million per year, or about \$150 million above the average pre-COVID increases.

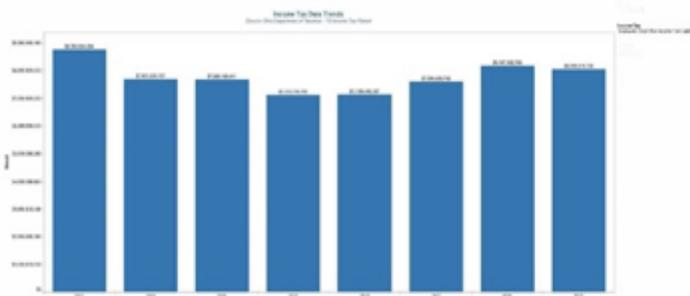
Where can the additional \$150 million per year come from? Let's look at two things that were happening during the last decade.

As the third chart shows, the state deposited into the Budget Stabilization Fund (Rainy-Day Fund) an amount in excess of \$2.4 billion, or almost \$350 million per year. The fund's balance is now nearly at its statutory limit. Through 10 months of the current fiscal year, state revenues have

exceeded expenditures by over \$1.1 billion, despite delayed income tax payments caused by the one-month filing deadline change. By the end of the year, I anticipate the net operating surplus in the state's general fund will reach \$1.5 billion. This clearly shows the state budget is structurally balanced and has more than enough capacity to absorb another \$150 million in annual spending on K-12 education.



During this same period, the state was also reducing income tax revenues. As the data compiled from the Department of Taxation in the fourth table shows, from tax year 2012 to tax year 2015, the state reduced income tax



revenue through rate reductions and other policy changes by over \$1.6 billion, more than \$500 million per year. Additional income tax reductions were enacted in 2019 and more are proposed in H.B. 110 as it has come to the Senate.

Moving forward, it is clear that the state has the capacity to fund now and into the future the entirety of the Fair School Funding Plan, if the political will is there to do it.

Concluding Remarks

We have a funding formula that was built for the last quarter of the 20th century and we need a formula for the second quarter of the 21st century. Any attempt to link continued funding based on the existing, broken formula is destined for failure.

At this very moment, all across Ohio, we are registering students for the graduating Class of 2034. With this current formula, that contains components held over from the 80's and 90's, we are educating an iPhone carrying, AirPods listening, music streaming generation with a funding system that reflects the bygone era of cassettes, eight track tapes, and 45 records.